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 March 31, 2004

( ) 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 May 17, 2004 there were 353,641,950 shares of Common Stock, no par value, outstanding.

USA TECHNOLOGIES, INC.

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USA Technologies, Inc.
Consolidated Balance Sheets

	March 31, 2004 (Unaudited)	June 30, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,459,429	$ 2,384,455
Accounts receivable, less allowance for uncollectible accounts of $167,000 at March 31, 2004 and $65,000 at June 30, 2003	1,315,958	414,796
Other receivable	762,130	--
Inventory	1,425,126	457,900
Prepaid expenses and other current assets	337,636	201,383
Investment	88,206	904,049
Assets held for sale	93,300	--
Subscriptions receivable	--	1,013,400
Total current assets	5,481,785	5,375,983
Property and equipment, less accumulated depreciation of $2,858,489 at March 31, 2004 and $3,216,139 at June 30, 2003	670,488	943,784
Software development costs, at cost, less accumulated amortization of $5,326,187 at March 31, 2004 and $4,327,526 at June 30, 2003	--	998,660
Goodwill	7,985,207	7,945,580
Intangibles, less accumulated amortization of $1,228,018 at March 31, 2004 and $328,500 at June 30, 2003	11,140,982	2,591,500
Other assets	8,544	37,174
Total assets	$ 25,287,006	$ 17,892,681
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,881,330	$ 2,266,156
Accrued expenses	2,174,533	2,720,743
Current obligations under long-term debt	479,070	830,674
Convertible Senior Notes	387,255	349,942
Total current liabilities	5,922,188	6,167,515
Convertible Senior Notes, less current portion	6,602,556	7,808,469
Long-term debt, less current portion	17,810	224,614
Total liabilities	12,542,554	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--523,442 at March 31, 2004 and 524,492 at June 30, 2003 (liquidation preference of $11,920,670 at March 31, 2004)	3,707,812	3,715,246
Common Stock, no par value: Authorized shares--475,000,000 at March 31, 2004 and 400,000,000 at June 30, 2003 Issued and outstanding shares--300,151,941 at March 31, 2004 and 218,741,042 at June 30, 2003	104,236,037	78,790,405
Accumulated other comprehensive income	51,819	--
Accumulated deficit	(95,251,216)	(78,813,568)
Total shareholders' equity	12,744,452	3,692,083
Total liabilities and shareholders' equity	$ 25,287,006	$ 17,892,681

See accompanying notes

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

	Three months ended March 31, 2004	Three months ended March 31, 2003	Nine months ended March 31, 2004	Nine months ended March 31, 2003
Revenues:				
Equipment sales	$ 1,026,523	$ 307,598	$ 3,741,359	$ 880,545
Product sales and other	10,924	78,823	304,476	357,703
License and transaction fees	315,242	337,817	902,047	995,082
Total revenues	1,352,689	724,238	4,947,882	2,233,330
Cost of sales (including amortization of software development costs)	1,070,942	717,773	3,236,524	2,057,173
Gross profit	281,747	6,465	1,711,358	176,157
Operating expenses:				
General and administrative	1,814,437	1,940,270	5,096,447	4,951,021
Compensation	1,220,990	1,082,736	8,664,200	2,767,168
Depreciation and amortization	411,205	239,363	1,227,109	734,026
Loss on debt modification	--	959,352	318,915	959,352
Total operating expenses	3,446,632	4,221,721	15,306,671	9,411,567
Operating loss	(3,164,885)	(4,215,256)	(13,595,313)	(9,235,410)
Other income (expense):				
Interest income	10,183	4,719	29,999	11,956
Gain (loss) on termination of contract	(6,600)	--	509,244	--
Gain on sale of investment	572,119	--	603,480	--
Interest expense:				
Coupon or stated rate	(343,679)	(346,627)	(850,919)	(924,582)
Non-cash interest and amortization of debt discount	(450,708)	(780,519)	(3,120,769)	(2,394,862)
Total interest expense	(794,387)	(1,127,146)	(3,971,688)	(3,319,444)
Total other income (expense)	(218,685)	(1,122,427)	(2,828,965)	(3,307,488)
Net loss	(3,383,570)	(5,337,683)	(16,424,278)	(12,542,898)
Cumulative preferred dividends	(393,144)	(396,624)	(786,513)	(793,586)
Loss applicable to common shares	$ (3,776,714)	$ (5,734,307)	$(17,210,791)	$(13,336,484)
Loss per common share (basic and diluted)	$ (0.01)	$ (0.05)	$ (0.06)	$ (0.15)
Weighted average number of common shares outstanding (basic and diluted)	293,734,831	115,488,581	276,000,532	91,491,804

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 1,050 shares of Common Stock from the conversion of 1,050 shares of Preferred Stock	(7,434)	7,434	--	--	--
Issuance of 1,337 shares of Common Stock from the conversion of cumulative preferred dividends at $10.00 per share	--	13,370	(13,370)	--	--
Exercise of 12,053,218 Common Stock Warrants and Options	--	1,013,436	--	--	1,013,436
Issuance of 10,743,154 shares of Common Stock from the conversion of 12% Senior Notes	--	2,148,630	--	--	2,148,630
Issuance of 1,443,070 shares of Common Stock in exchange for salaries and professional services	--	387,155	--	--	387,155
Issuance of 10,500,000 shares of Common Stock to executive in connection with employment agreement	--	4,620,000	--	--	4,620,000
Issuance of 25,437,036 shares of Common Stock from various private placement offerings at varying prices per share	--	5,517,754	--	--	5,517,754
Issuance of 1,062,034 shares of Common Stock and related Common Stock Warrants in lieu of cash payment for interest on the 12% Senior Notes	--	478,646	--	--	478,646
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	--	--	(16,424,278)	--	(16,424,278)
Unrealized gain on investment	--	--	--	51,819	51,819
Total comprehensive loss	--	--	--	--	(16,372,459)
Balance, March 31, 2004	$ 3,707,812	$104,236,037	$(95,251,216)	$ 51,819	$ 12,744,452

See accompanying notes.

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

	NINE MONTHS ENDED MARCH 31, 2004	2003
OPERATING ACTIVITIES		
Net loss	$(16,424,278)	$(12,542,898)
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	4,950,905	1,278,724
Interest expense on Senior Notes paid through the issuance of Common Stock	478,646	444,618
Interest amortization related to Senior Notes and Convertible Debentures	2,642,123	1,950,244
Amortization	1,898,178	1,092,828
Depreciation	373,347	632,182
Loss on debt modification	318,915	959,352
Gain on sale of investment	(603,480)	--
Gain on contract settlement	(509,244)	--
Changes in operating assets and liabilities:		
Accounts receivable	(907,662)	(104,142)
Other receivable	674,649	--
Inventory	(967,226)	190,095
Prepaid expenses and other assets	(68,469)	13,008
Accounts payable	746,015	1,361,218
Accrued expenses	(256,276)	295,115
Net cash used in operating activities	(7,653,857)	(4,429,656)
INVESTING ACTIVITIES		
Purchase of property and equipment	(273,493)	(200,741)
Cash received from sale of property and equipment	35,100	--
Cash paid in connection with Bayview acquisition	(727,969)	--
Cash received for sale of Jubilee shares	709,011	--
Net cash used in investing activities	(257,351)	(200,741)
FINANCING ACTIVITIES		
Net proceeds from issuance of Common Stock and exercise of Common Stock Warrants	6,531,190	3,274,805
Net proceeds from issuance of Senior Notes and Convertible Debentures	--	1,792,150
Repayment of long-term debt	(558,408)	(455,700)
Collection of subscriptions receivable	1,013,400	35,000
Net cash provided by financing activities	6,986,182	4,646,255
Net (decrease) increase in cash and cash equivalents	(925,026)	15,858
Cash and cash equivalents at beginning of period	2,384,455	557,970
Cash and cash equivalents at end of period	$ 1,459,429	$ 573,828
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 685,121	$ 642,842
Conversion of Convertible Preferred Stock to Common Stock	$ 7,434	$ 10,266
Conversion of Convertible Preferred Dividends to Common Stock	$ 13,370	$ 15,970
Conversion of Senior Notes and Convertible Debenture to Common Stock	$ 2,148,630	$ 252,858
Beneficial conversion feature related to Senior Notes	$ 1,981,007	$ 1,037,920
Prepaid stock expenses through issuance of Common Stock	$ 56,250	$ 884,475
Issuance of Common Stock in connection with the Bayview acquisition	$ 9,278,200	$ --
Purchase of investment in Jubilee through issuance of Common Stock	$ --	$ 2,850,000
Subscriptions receivable	$ --	$ 177,000

See accompanying notes

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

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 companies 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, commercialized and marketed 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.

The Company has also developed, commercialized and is currently marketing its eSuds Laundry system, an end-to-end solution for the commercial laundry industry, and its Kiosk software, both of which utilize the Company's network for transaction processing, web-based reporting, web-based remote monitoring and management.

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 nine month periods ended March 31, 2004 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 nine months ended March 31, 2004, 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 $899,518 for the three and nine months ended March 31, 2004, respectively, and $73,000 and $219,000 for the three and nine months ended March 31, 2003, 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 were amortized over a useful life of two-years. Amortization expense, reflected in cost of sales, was $332,887 and $998,661 for the three and nine months ended March 31, 2004, respectively, and $291,276 and $873,828 for the three and nine months ended March 31, 2003, 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 nine months ended March 31, 2004. 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 nine months ended March 31, 2004 and 2003 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 provided 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 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 nine months ended March 31, 2004 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 nine months ended March 31, 2003 would have been as follows had the acquisition taken place July 1, 2002 - revenues of $6,306,838; net loss of $12,927,242; loss applicable to common shares of $13,720,828; loss per common share (basic and diluted) of $0.12.

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 nine months ended March 31, 2004.

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 this sale. In March 2004, the Company sold 969,091 of the Jubilee shares for net proceeds of $1,075,891, and realized a gain of $572,119

from this sale. Sale proceeds of $762,130 were outstanding as of March 31, 2004 and are reflected as Other receivable in the accompanying financial statements. These proceeds were subsequently received in April 2004. An unrealized gain of $51,819 on the remaining shares held by the Company is reflected in shareholders' equity as Accumulated other comprehensive income at March 31, 2004.

5. FINANCING ACTIVITIES

The Company 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. Through December 31, 2003, certain Senior Note holders agreed to exchange an aggregate of $2,303,953 of these notes for new notes maturing in 2006 and 2007. These exchanges included all but $10,000 of the Notes scheduled to mature on December 31, 2003. Notes scheduled to mature on December 31, 2004 are reflected as a current liability as of March 31, 2004.

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 nine months ended March 31, 2004 have been expensed and have been reported in the consolidated statements of operations as a Loss on debt modification ($0 and $959,352 for the three months ended March 31, 2004 and March 31, 2003, respectively).

Through December 31, 2003, when noteholders agreed to exchange their 2003 and 2004 Senior Notes for 2006 and 2007 Senior Notes, respectively, the Company's share price was often 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 expense for debt discount and other issuance costs were $451,679 and $2,642,123 for the three and nine months ended March 31, 2004, respectively, and $661,912 and $1,950,244 for the three and nine months ended March 31, 2003, respectively.

As of March 31, 2004, outstanding debt for Senior Notes reflected in the consolidated balance sheet was $6,989,811. This is comprised of $10,398,187 face amount of notes less unamortized debt discount and other issuance costs of $3,408,376.

Through December 31, 2003, the holders of the Senior Notes had the right to purchase shares of the Company's Common Stock at $0.20 per share using quarterly interest payments that were due in lieu of a cash payment for the interest. Additionally, for each share purchased, the note holder was 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. For the nine months ended March 31, 2004, 1,062,034 common shares were issued (along with an identical number of warrants) for payment of interest due for the period of $212,388 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 $266,258 and has been recorded as additional interest expense for the period.

During the nine months ended March 31, 2004, the Company issued shares of Common Stock in various transactions:

- 4,377,036 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 $432,754. The Company also issued 695,000 shares under this offering for services rendered by consultants amounting to $185,000.

- 550,000 shares were issued at $0.15 per share under the 2004-A Private Placement Offering, authorized in February 2004, which generated net proceeds of $82,500 through March 31, 2004. Subsequent to March 31, 2004, 34,450,000 shares have been subscribed for, resulting in net proceeds of $5,167,500, of which $3,460,000 has been received to date and $1,707,500 for which collection is expected in May 2004.

- 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 subscription agreement dated November 4, 2002.

6. LONG-TERM DEBT

Long-term debt consisted of the following:

	March 31, 2004	June 30, 2003
Bank facility	$ 377,653	$ 828,466
Working capital loans	76,765	166,765
Other, including capital lease obligations	42,462	60,057
	496,880	1,055,288
Less current portion	479,070	830,674
	$ 17,810	$ 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 Kodak Vending Placement 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 March 31, 2004, there were 2,134,232 options outstanding to purchase Common Stock at exercise prices ranging from $0.165 to $2.00 per share, all of which were fully vested, and 35,793,687 fully vested warrants to purchase Common Stock at exercise prices ranging from $0.070 to $1.25 per share.

On April 21, 2004, the Company and La Jolla Cove Investors, Inc. reached an agreement regarding La Jolla's letter claiming damages for failure to register the shares underlying La Jolla's warrants. Per this agreement, the Company agreed to extend the expiration date of La Jolla's 13,510,000 remaining warrants until December 1, 2005, La Jolla released all claims against the Company, and La Jolla agreed to limit the sale of our shares during any calendar month to an amount not greater than seven percent of the prior month's share trading volume. On May 11, 2004, the Company agreed the reduce the exercise price of La Jolla's remaining warrants from $0.1008 to $0.0908. During May 2004, La Jolla exercised all of their remaining warrants at $0.0908 per share generating net proceeds of $1,215,900.

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 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.

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 $124,000 and $471,000 for three and nine months ended March 31, 2004, 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. Under the settlement agreement, the Company received a payment from Kodak of approximately $675,000. 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. Through March 31, 2004 the Company has received approximately $35,000 for these machines. The settlement agreement provides that all machines are to be pulled from service no later than mid calendar year 2004. The agreement also provides 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 $377,653 was outstanding as of March 31, 2004. The Company will repay this debt as the vending machines are returned to the supplier.

This termination agreement resulted in a gain of $509,244 during the nine months ended March 31, 2004 and such amount is reflected as Other income in the Consolidated Statements 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 $290,000 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 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.

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 $999,000 for the three and nine months ended March 31, 2004, respectively, and $291,000 and $874,000 for the three and nine months ended March 31, 2003, 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 $900,000 for the three and nine months ended March 31, 2004, respectively, and $73,000 and $219,000 for the three and nine months ended March 31, 2003, 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 March 31, 2004 versus the three months ended March 31, 2003

The three months ended March 31, 2004 resulted in a net operating loss of $3,383,570 (approximately $700,000 non-cash) compared to a net loss of $5,337,683 (approximately $3,300,000 non-cash) for the comparable quarter in the prior fiscal year.

Revenues for the three months ended March 31, 2004 increased to $1,352,689 from $724,238 during the same period in the prior fiscal year, an increase of $628,451 or 87%. This increase was primarily attributed to sales of the Company's energy conservation equipment for the three months ended March 31, 2004, as such revenues did not exist in the corresponding quarter of the prior fiscal year since the acquisition of Bayview occurred in July 2003. The increase in revenues is also partially attributable to an increase in the Company's cashless technology and services. Revenues are discussed in more detail as follows:

Equipment sales: Revenues from equipment sales increased to $1,026,523 from $307,598 in the corresponding quarter of the prior fiscal year, an increase of $718,925 or 234%. This increase is mainly due to sales of the Company's energy conservation equipment of approximately $644,000 for the three months ended March 31, 2004, as such revenues did not exist in the corresponding quarter of the prior year, since the acquisition of Bayview occurred in July 2003. In addition, sales of the Company's cashless technology, which includes e-Port, e-Suds and Kiosk systems, increased to $211,000, approximately $122,000 or 137% over the corresponding period of the prior fiscal year. The increases in sales were offset by a decrease in Business Center equipment sales of approximately $40,000.

Product sales and other: Revenues from product sales and other decreased to $10,924 from $78,823 directly due to a decrease in camera and film sales from Company owned vending machines as a result of the wind down of the Kodak Vending Placement Agreement.

License and transaction fees: Revenues from license and transaction fees decreased $22,575 or 7% from $337,817 to $315,242 for the three months ended March 31, 2003 and 2004, respectively. This decrease was due to a decrease in fees earned from the Kodak Vending Placement Agreement of approximately $33,000 as a result of the wind down of the contract, offset by an increase in fees of approximately $11,000 as a result of an increase in the number of devices connected to the Company's network.

Cost of sales consisted of equipment, product and labor costs of approximately $534,000 and $272,000 for the three months ended March 31, 2004 and 2003, respectively, an increase of $262,000; software development amortization of approximately $333,000 and $291,000 for the three months ended March 31, 2004 and 2003, respectively, an increase of $42,000; and network and transaction related costs of $204,000 and $154,000 for the three months ended March 31, 2004 and 2003, respectively, an increase of $50,000. The increase of approximately $353,169 or 49% in total cost sales from $717,773 to $1,070,942 for the three months ended March 31, 2003 and 2004, respectively, was principally attributable to the increase in energy conservation equipment sales.

Gross profit for the three months ended March 31, 2004 was $281,747, compared to gross profit of $6,465 in the same period in the prior fiscal year. The increase of $275,282 was due to increases in hardware sales, particularly 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 of $3,446,632, for the three months ended March 31, 2004 decreased $775,089 or 18% from $4,221,721 for the same period ended March 31, 2003. The components of operating expenses (General and administrative, Compensation, Depreciation and amortization and Loss on debt modification) and the causes of this significant decrease are explained further below:

General and administrative expenses decreased from $1,940,270 for the three months ended March 31, 2003 to $1,814,437 for the three months ended March 31, 2004, a decrease of $125,833 or 6%. This decrease is due to decreases of $636,000 related to professional fees, primarily related to business consulting and public relations. This decrease was offset by increases in overall general and administrative expenses of approximately $269,000 related to the acquired energy conservation operation, as such expenses did not exist in the comparable period last fiscal year, as well as $114,000 of expenses related to the recruitment of executive personnel, $91,000 of additional bad debt reserve and an increase in utility expenses of $42,000.

Compensation expense increased to $1,220,990 for the three months ended March 31, 2004, a $138,254 or 13% increase over the comparable period last fiscal year. This increase is due to approximately $249,000 of additional compensation, including employee benefits and sales commissions, related to the energy conservation operations acquired in July 2003 as such expenses did not exist in the comparable period last fiscal year and an increase of $43,000 due to overall higher compensation levels and cost of employee benefits. These increases were offset by a decrease in bonuses and sales commissions of $153,000.

Depreciation and amortization expense for the three months ended March 31, 2004 was $411,205, compared to $239,363 for the same period in the prior fiscal year, a $171,842 or 72% increase. This increase was attributable to amortization expense of intangible assets of $236,000 and depreciation expense of property and equipment of $31,000 acquired from Bayview in July 2003, offset by decreases in depreciation of existing assets that have reached the end of their estimated useful life.

During March 2004, the Company sold 969,091 shares of its Jubilee investment for net proceeds of $1,075,891, of which $762,130 was received subsequent to March 31, 2004 and is reflected as an other receivable as of that date, and realized a gain of $572,119 from the sale of these shares (see Note 4).

Total interest expense decreased from $1,127,146 to $794,387 for the three months ended March 31, 2003 and 2004, respectively, a decrease of $332,759 or 30%. 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 by Senior Note Holders. Upon 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. In addition, during the quarter ended March 31, 2004, the Company did

not offer Note holders the option to receive Common Stock and Common Stock Warrants in lieu of cash for interest earned on the notes, as it did in the corresponding quarter of the prior fiscal year. Warrants issued in connection with this offer are valued and charged as additional non-cash interest. Therefore, due to lower unamortized discount balances and the absence of a warrant issuance, non-cash interest expense and debt discount amortization of $450,708 for the three months ended March 31, 2004 decreased $329,811 from $780,519 for the comparable period last fiscal year.

For the nine months ended March 31, 2004 versus the nine months ended March 31, 2003

The nine months ended March 31, 2004 resulted in a net operating loss of $16,424,278 (approximately $9,500,000 non-cash) compared to a net loss of $12,542,898 (approximately $3,100,000 million non-cash) for the comparable period in the prior fiscal year.

Revenues for the nine months ended March 31, 2004 increased to $4,947,882 from $2,233,330 during the same period in the prior fiscal year, an increase of $2,714,552 or 122%. This increase was primarily attributed to sales of the Company's energy conservation equipment for the nine months ended March 31, 2004, as such revenues did not exist in the corresponding period of the prior fiscal year since the acquisition of Bayview occurred in July 2003, as well as increases in equipment sales of our cashless technologies and services. Revenues are discussed in more detail as follows:

Equipment sales: Revenues from equipment sales increased to $3,741,359 from $880,545 in the corresponding period of the prior fiscal year, an increase of $2,860,814 or 325%. This increase is mainly due to sales of the Company's energy conservation equipment of approximately $2,751,000 for the nine months ended March 31, 2004 as such revenues did not exist in the corresponding quarter of the prior year, since the acquisition of Bayview occurred in July 2003. In addition, sales of the Company's cashless technology, which includes e-Port, e-Suds and Kiosk systems, increased to $521,000, approximately $225,000 or 76% over the corresponding period of the prior fiscal year. The increases in sales were offset by a decrease in Business Center equipment sales of approximately $84,000.

Product sales and other: Revenues from product sales and other decreased to $304,476 from $357,703, a decrease of $53,227 or 15% over the same period of the prior fiscal year. This decrease was due to a decrease in camera and film sales from Company owned vending machines of approximately $254,000 as a result of the wind down of the Kodak Vending Placement Agreement, offset by $200,000 of revenue recorded in the quarter ended December 31, 2003 relating to the Strategic Alliance Agreement executed in October 2003 between the Company and Conopco, Inc dba Unilever Home & Personal Care North America.

License and transaction fees: Revenues from license and transaction fees decreased $93,035 or 9% from $995,082 to $902,047 for the nine months ended March 31, 2003 and 2004, respectively. This decrease was due to a decrease in fees earned from the Kodak Vending Placement Agreement of approximately $128,000 as a result of the wind down of the contract, offset by an increase in fees of approximately $35,000 as a result of an increase in the number of devices connected to the Company's network.

Cost of sales consisted of equipment, product and labor costs of approximately $1,750,000 and $723,000 for the nine months ended March 31, 2004 and 2003, respectively, an increase of $1,027,000; software development amortization of approximately $999,000 and $874,000 for the nine months ended March 31, 2004 and 2003, respectively, an increase of $125,000; and network and transaction related costs of $488,000 and $461,000 for the nine months ended March 31, 2004 and 2003, respectively, a increase of $27,000. The increase of $1,179,351 or 57% in total cost sales from $2,057,173 to $3,236,524 for the nine months ended March 31, 2003 and 2004, respectively, was principally attributable to the increase in equipment sales.

Gross profit for the nine months ended March 31, 2004 was $1,711,358, compared to gross profit of $176,157 in the same period in the prior fiscal year. The increase of $1,535,201 was due to increases in hardware sales, particularly 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 nine months ended March 31, 2004 was $15,306,671, (non-cash $7,200,000) an increase of $5,895,104 or 63% 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 $4,951,021 for the nine months ended March 31, 2003 to $5,096,447 for the nine months ended March 31, 2004, an increase of $145,426 or 3%. This increase is due to increases in overall general and administrative expenses of approximately $1,001,000 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 $873,000 of professional fees, primarily related to business consulting, promotion and public relations.

Compensation expense increased to $8,664,200 (non-cash $4,700,000) for the nine months ended March 31, 2004, a $5,897,032 or 213% 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 $554,000 increase in bonus expenses, primarily to the Company's executive officers and approximately $662,000 of additional compensation, including employee benefits and 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 nine months ended March 31, 2004 was $1,227,109, compared to $734,026 for the same period in the prior fiscal year, a $493,083 or 67% increase. This increase was attributable to amortization expense of intangible assets of $681,000 and depreciation expense of property and equipment of $90,000 acquired from Bayview in July 2003, offset by decreases in depreciation of existing assets that have reached the end of their estimated useful life.

The Company incurred charges during the nine months ended March 31, 2004 and 2003 relating to the modification of debt terms for certain of the Senior Notes in the amount of $318,915 and $959,352, respectively. This charge is for the write-off of the unamortized debt discount remaining for Senior Notes scheduled to mature 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.

During the nine months ended March 31, 2004, a gain of $509,244 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 $290,000 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.

During the nine months ended March 31, 2004, the Company sold 1,669,091 shares of its Jubilee investment for net proceeds of $1,471,142, resulting in a gain of $603,480. Proceeds of $762,130 were received subsequent to March 31, 2004 and are reflected as an other receivable as of that date (see Note 4).

Total interest expense increased from $3,319,444 to $3,971,688 for the nine months ended March 31, 2003 and 2004, respectively, an increase of $652,244 or 20%. 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 nine month period ending March 31, 2004.

PLAN OF OPERATIONS

Vending

In February 2004, the Company and Motient Corporation, owner and operator of a two-way wireless data network, together launched a marketing program to bring vending machines online using the Company's e-Port cashless payment system and Motient's wireless data network. In December 2003, the Motient wireless network became available to the current generation of e-Port, on-line, vending technology. This connectivity capability has enabled customers to substantially ramp up the adoption of solutions such as cashless vending and data delivery. The targeted goal for the marketing program is to bring 10,000 units online by December 31, 2004. As of March 31, 2004, there were 260 units on the Company's network and Motient wireless network as result of this initiative.

Coinciding with the Motient initiative, described above, was the identifying and pursuit of target markets where customers can be assured of early success from the adoption of cashless technology. As a result of this initiative, sales in the quarter ended March 31, 2004 increased over the

previous two quarters of the 2004 fiscal year, the largest ever increase in e-Port sales, with shipments to 19 different bottlers and vending operators, of which 11 were new accounts. Most notable were sales to an operator for the new Pop Century Hotel at Disney in Orlando, Florida and to a vending operator in Southern California, to address a growing problem of vandalism in their hotel locations e-Port cashless payment solution enabled this operator to replace coins and bills completely, thus removing cash reserves in the machines.

Three other initiatives are targeted for the fourth quarter of fiscal year 2004. First, the availability of new combo readers (combined bill validator and card reader in a single device) brings many joint selling opportunities with MEI and Coinco, manufacturers of these devices. Second, the Company is pursuing a campaign titled "Coca-Cola experience with cashless" aimed at acquiring as customers, Coke bottlers throughout the U.S., based upon experiences with current Coca-Cola customers. Lastly, the Company has appointed John Roughneen, a successful vending executive, as VP of Strategic Business Development. Mr. Roughneen is well known within the vending industry, and his reputation and prior successes within the vending industry is already having a positive impact on our business.

Energy Management

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 April 2004, the Company launched "Project Get Green", an incentive program developed and sponsored by the National Automatic Merchandiser Association (NAMA) and the Company. This program is aimed at helping the vending industry meet new ENERGY STAR(R) standards for energy consumption that were announced in April 2004 by the Environmental Protection Agency (EPA). The EPA's new standards represent a significant opportunity for the Company, as our technology will render a non-conforming vending machine ENERGY STAR(R) equivalent or compliant. The Company estimates that 4.6 million machines in the U.S. market are candidates for our energy management technology. The joint NAMA and Company initiative includes a 20 percent marketing allowance on the Company's energy management solutions through June 30, 2004 and the Company anticipates increased sales as a result of vending operators taking proactive actions to become compliant with the new EPA standards.

In February 2004, in an effort to continue to strengthen its network of government and utility entities offering rebates for the Company's energy products, Eugene Water & Electric Board, a publicly owned electric utilities company located in the State of Oregon, agreed to offer a $120 rebate per

installation of the VendingMiser. To date the Company has Twenty-Two (22) power utility or government agencies currently offering rebates to customers who install the Company's energy products.

In January 2004, the Company entered into an alliance with the EnergySmart Grocer, an energy consultant to independent grocers, to bring an energy conservation program, utilizing the Company's CoolerMiser and VendingMiser solutions, to thousands of independent grocery stores in the state of California. The program includes a rebate of $90 for every CoolerMiser and VendingMiser installed. To date, 390 units or $54,000 has been sold under this program.

The Company has also targeted local, state and federal government agencies as customers for this product line. In order to increase the Company's reach in this regard, the Company embarked on a campaign for General Services Administration (GSA) approval, which would make these products available to all government agencies. The Company is anticipating GSA approval in the near term.

Laundry

In April 2004, the Company and Caldwell and Gregory entered into a five-year agreement, whereby the Company has granted Caldwell and Gregory rights, subject to total minimum purchase requirements of 10,500 units by September 2008, to exclusively provide e-Suds to colleges and universities in Pennsylvania, Delaware, Maryland, Virginia, West Virginia, Tennessee and the District of Columbia.

In March 2004, the Company installed its eSuds Internet connected laundry system at Carnegie Mellon University, in Pittsburgh, Pennsylvania, on a limited number of machines for a pilot phase working through Caldwell and Gregory, a laundry service operator in the university and college laundry marketplace. After only two weeks into the pilot phase, due to favorable student response, Caldwell and Gregory and Carnegie Mellon University agreed to transition from the pilot to full implementation for the fall semester 2004, giving the universities 4,000 campus residents the ability to use the eSuds laundry services.

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. Under 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.

American Sales Inc. (ASI) has signed a five-year agreement to purchase units of Stitch's eSuds laundry solution for their university locations in the Midwest. In October 2003, the Company installed a system at ASI's facilities for testing, which completed final testing in May 2004. The Company anticipates unit sales to begin the fourth quarter of fiscal year 2004, with two universities scheduled for installation in June 2004 and a third by August 2004.

ZiLOG Strategic Alliance

In October 2002, the Company signed a five-year Strategic Alliance with ZiLOG Corporation, a semiconductor company, which is a supplier of microprocessors to the retail point of sale and other industries. One of the purposes of this alliance was to combine the Company's proprietary e-Port software with ZiLOG's eZ80 line of microprocessors, such that the Company might be able to improve price/performance of its product line, and allow ZiLOG to market an e-Port enabled, network ready, eZ80 microprocessor. Since the signing of this agreement, the Company has developed, commercialized and implemented, for purchase by its customers, products and services utilizing the work-product of this alliance. For example, in its e-Suds product line, the Company has contracted with Caldwell and Gregory, and American Sales Inc. for up to 19,000 e-Suds `connections'. Additionally, the Company has developed, and is beginning to test, its new G-5 e-Port for the vending market.

The Company has also worked with ZiLOG to create an e-Port enabled eZ80 ZiLOG processor, which is intended to allow ZiLOG customers to engineer and manufacture their products with the capability to attach to a network, and in some cases, the Company's network. The e-Port enabled eZ80 ZiLOG processor has been shown at various trade events, and has been demonstrated to a limited number of potential customers.

The Company expects to see an increase in sales of its products due to improved price/performance - such as in e-Suds and the new G-5 e-Port for vending. Additionally, the Company intends to license software embedded in the e-Port enabled ZiLOG eZ80, as well as, possibly providing network services for ZiLOG customers who engineer and manufacture the e-Port enabled eZ80 processor into the products they bring to market.

Kodak Vending

In December 2003, the parties to the Kodak Vending Placement Agreement agreed to terms of an early termination of the contract effective December 31, 2003. The settlement resulted in the termination of the vending agreement pursuant to which the Company received a payment from Kodak of approximately $675,000 and payments equal to $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 vending machine, title to the vending machine will transfer 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 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 $377,653 was outstanding as of March 31, 2004. Final payment of the debt will occur no later than the time title of the machines is transferred to the supplier.

Revenues of the Company will be reduced as a result of the vending contract termination. However, 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 $124,000 and $471,000 for the three and nine months ended March 31, 2004, respectively.

LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended March 31, 2004, net cash of $7,653,857 was used by operating activities, primarily due to the net loss of $16,424,278 offset by non-cash charges aggregating approximately $9,500,000 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 $778,969 (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 nine months ended March 31, 2004, net cash used in investing activities was $257,351, 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 nine months ended March 31, 2004 provided $6,986,182 of funds, which was necessary to support cash used in operating and investing activities. Proceeds of $7,544,590 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 $558,408.

Long-term debt obligations of the Company as of March 31, 2004 were as follows:

Bank facility	$377,653
Working capital loans	76,765
Other, including capital lease obligations	42,462
	496,880
Less current portion	479,070
	$ 17,810

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 March 31, 2004 of $377,653, 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 working capital loan. This loan is secured by certain assets of Stitch and bears interest at 6.75% per annum. On November 6, 2003, the Company reached an agreement with the bank to make monthly installments that will repay the remaining balance on the working capital loan by October 2004.

The Company has incurred losses since inception. For the nine months ended March 31, 2004, the net loss was $16,424,278 of which approximately $9,500,000 related to non-cash charges. Cumulative losses through March 31, 2004 amounted to approximately $95,000,000. 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 nine months ended March 31, 2004 was a net cash outflow of approximately $1,000,000 - $300,000 of cash used in operations and $728,000 invested in assets and liabilities connected 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 nine 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 nine months ended March 31, 2004 cash used in operating activities was approximately $850,000 per month. Operating cash flows during the nine months ended March 31, 2004 were impacted by working capital increases that were disproportionate to the increase in revenues, as well as the investment made in working capital to support the energy management equipment line acquired from Bayview. The nine-month period also absorbed cash bonuses of approximately $600,000, primarily to the Company's executive officers. The Company believes it can improve its management of working capital, primarily related to accounts receivables, and reduce cash used in operating

activities to approximately $700,000 per month, which is comparable to cash used in operating activities during the three months ended March 31, 2004. The foregoing estimated monthly cash requirement assumes no significant increase in revenues. Using that as a basis for estimating cash requirements for the next twelve months, along with requirements for capital expenditures and repayment of long-term debt, the Company's cash needs would approximate $9,200,000 through March 31, 2005.

As of March 31, 2004, the Company had approximately $1,500,000 of cash and cash equivalents, primarily as a result of proceeds from several private placements of Common Stock during fiscal 2004. In September 2003 and March 2004, the Company sold a total of approximately 1,700,000 shares of its investment in the Jubilee Trust generating net proceeds of approximately $1,500,000, of which approximately $800,000 was received in April 2004.

In February 2004, the Company initiated a private placement offering (the "2004-A" offering) involving an aggregate sale of up to 35,000,000 shares of Common Stock at $0.15 per share. Through March 31, 2004, 550,000 shares were sold, resulting in proceeds of $82,500 in connection with this offering. As of May 17, 2004, an aggregate of 35,000,000 shares have been subscribed for, resulting in proceeds of $5,250,000, of which $3,542,500 has been received as of this date and $1,707,500 of which the Company believes will be collected in May, 2004.

During April and May 2004, La Jolla exercised a total of 14,000,000 warrants for an aggregate of approximately $1,265,000. As of March 31, 2004, there were 35,793,687 fully vested warrants to purchase Common Stock at exercise prices ranging from $0.070 to $1.25 per share, of which 30,464,194 warrants are "in the money", with exercise prices below $0.11 per share. The potential exercise of these "in the money" warrants could provide $2,576,000 of additional proceeds to the Company. Subsequent to March 31,2004 17,608,402 warrants were excercised providing proceeds of $1,433,000.

Using current revenue of approximately $1,500,000 per quarter and current operating levels and considering cash on hand of $1,500,000 as of March 31, 2004, proceeds of $800,000 received in April 2004 from the sale of Jubilee shares in March 2004, proceeds of $1,433,000 from the excercise of "in the money" warrants subsequent to March 31,2004 and the expected proceeds of approximately $5,000,000 from the 2004-A Private Placement Offering anticipated to be received by May 2004, there will be sufficient capital available to fund the Company's cash requirements through the end of the current fiscal year ending June 30, 2004. However, if cash needs of $9,200,000 materialize over the next twelve months on the basis described above, cash of approximately $500,000 will be required in addition to the sources enumerated above. A substantial portion of this capital could likely come from increased revenues, the exercise of warrants, as well as from further sales of the Company's securities. Given the Company's current product offerings and the markets it is addressing, the Company believes the capital markets should be available to raise additional capital sufficient to fund its operating needs. If revenues increase over the next twelve months from those realized by the Company in the past, cash generated from such improved operations would help satisfy the Company's cash 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 March 31, 2004. 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 March 31, 2004 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 February 2004, the Company initiated a private placement offering (the "2004-A" offering), consisting of up to 35,000,000 shares of restricted Common Stock at $0.15 per share to accredited investors. The securities will be offered and sold pursuant to the exemption from registration set forth in Section 4(2) of the Act and Rule 506 promulgated thereunder. The Company has agreed at its cost and expense to use its best efforts to register the Common Stock for resale by the holder under the Act. Through March 31, 2004, the Company issued 550,000 shares to two (2) accredited investors and $82,500 of proceeds has been received.

In January 2004, the Company issued 150,000 shares to CEOCast Inc., a consultant for investor relation services to be rendered. The issuance is exempt from the registration requirements of the Securities Act of 1933 pursuant to Section 4(2). The Company has agreed to prepare and file at its expense a registration statement covering the resale of the shares of Common Stock.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The Annual Meeting of Shareholders was held on January 16, 2004.
(b) Election of Directors

Each of the following individuals was elected as a director at the Annual Meeting. The number of votes cast with respect to the election of directors was as follows:

	For	Withhold
George R. Jensen, Jr	192,641,987	5,577,738
Stephen P. Herbert	191,717,390	6,502,335
William W. Sellers	191,761,317	6,458,408
William L. Van Alen, Jr	191,971,617	6,248,108
Steven Katz	193,743,872	4,475,853
Douglas M. Lurio	192,560,752	5,658,973

(c) In addition to the election of directors, the following other matters were also voted on and approved at the Annual Meeting:

Ratification of the appointment of Ernst & Young LLP as independent public accountants for the Company for its 2004 fiscal year:

Affirmative Votes	196,455,944
Negative Votes	1,047,715
Abstaining Votes	716,066

Approval of the increase to the number of authorized shares of Common Stock from 400,000,000 to 475,000,000:

Affirmative Votes	177,477,247
Negative Votes	18,643,461
Abstaining Votes	2,099,017

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

4.1 Addendum to Warrant to Purchase Common Stock dated April 21, 2004, between the Company and La Jolla Cove Investors, Inc.

4.2 Addendum to Warrant to Purchase Common Stock dated May 11, 2004, between the Company and La Jolla Cove Investors, Inc.

4.3 Form of Subscription Agreement for 2004-A Offering.

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 January 7, 2004, the Company filed a report on Form 8-K to report information under Item 12 thereof relating to revenues for the month of December 2003 and the quarter ended December 31, 2003.

On January 22, 2004, the Company filed a report on Form 8-K to report information under Item 5 thereof relating a Strategic Alliance Agreement between the Company and Conopco, Inc dba Unilever Home & Personal Care North America. The report also contained information under Item 9 relating to the speech made by George R. Jensen, Jr., Chairman and Chief Executive Officer, at the Company's annual meeting of shareholders.

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: May 17, 2004	/s/ George R. Jensen, Jr.
	George R. Jensen, Jr., Chairman, Chief Executive Officer
Date: May 17, 2004	/s/ David M. DeMedio
	David M. DeMedio, Chief Financial Officer

ADDENDUM TO WARRANT TO PURCHSE COMMON STOCK

This Addendum to Warrant to Purchase Common Stock is entered into as of the 21st day of April 2004 by and between USA Technologies, Inc., a Pennsylvania corporation ("USA") and La Jolla Cove Investors, Inc., a California corporation ("LJCI")

WHEREAS, LJCI and USA are parties to that certain Warrant to Purchase Common Stock dated as of August 2, 2001 ("Conversion Warrant"; and

WHEREAS, the Conversion Warrant expires on August 2, 2004; and

WHEREAS, the parties desire to extend the expiration date of the Warrant and agree to certain other matters, all as set forth below.

NOW, THEREFORE, in consideration of the mutual promises and convenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, USA and LJCI agree as follows:

1. All terms used herein shall have the definitions set forth in the Conversion Warrant.

2. The Expiration Date of the Conversion Warrant is extended to December 1, 2005

3. LJCI agrees to cumulatively sell less than: (a) 50,000 shares of USA Common Stock per day from the date hereof through April 28, 2004, (b) 100,000 shares of USA Common Stock per day on April 29, 2004 and April 30, 2004, and (c) in each calendar month after April 2004, the greater of: (i) 7% of the previous month's volume or (ii) 2,000,000 shares of USA Common Stock.

4. LJCI does hereby fully, unconditionally and irrevocably remise, release and discharge USA, and its successors and assigns, of and from any and all manner of causes of actions, suits, debts, damages, claims, liabilities and demands of any nature whatsoever, whether vested or contingent, existing or hereafter accruing, known or unknown, which LJCI ever had, now has, or hereafter can, shall or may have against USA for, upon or by reason of any delay in having or failure to have the Warrant Shares (or any other shares of USA covered by the Registration Rights Agreement) registered for resale under the Securities Act of 1933, as amended or for any breach by USA of any obligations to register these shares for resale under the Registration Rights Agreement or the Purchase Agreement.

5. Except as specifically amended herein, all other terms and conditions of the Conversion Warrant shall remain in full force and effect.

IN WITNESS WHEREOF, USA and LJCI have caused this Addendum to Warrant to Purchase Common Stock to be signed by its duly authorized officers on the date first set forth above.

USA Technologies, Inc.	La Jolla Cove Investors, Inc.
By: /s/George R. Jensen	By: /s/Travis W. Huff
Name: George R. Jensen	Name: Travis Huff
Title: Chairman & CEO	Title: Portfolio Mgr

ADDENDUM TO WARRANT TO PURCHSE COMMON STOCK

This Addendum to Warrant to Purchase Common Stock is entered into as of the 11th day of May 2004 by and between USA Technologies, Inc., a Pennsylvania corporation ("USA") and La Jolla Cove Investors, Inc., a California corporation ("LJCI")

WHEREAS, LJCI and USA are parties to that certain Warrant to Purchase Common Stock dated as of August 2, 2001 ("Conversion Warrant"; and

WHEREAS, the parties desire to amend the Conversion Warrant in certain respects.

NOW, THEREFORE, in consideration of the mutual promises and convenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, USA and LJCI agree as follows:

1. All terms used herein shall have the definitions set forth in the Conversion Warrant.

2. USA shall deliver to LJCI by DWAC on or before May 14, 2004, the remaining 12,510,000 Warrant Shares that LJCI is entitled to under the Conversion Warrant for the sum of $1,125,908 (which represents an Exercise Price of $0.0908 on the 12,510,000 Warrant Shares hereunder and the 1,000,000 Warrant Shares received from the May 4, 2004 conversion Warrant exercise). The Warrant Shares shall be delivered by USA to LJCI in three tranches of 4,170,000 shares each. Upon confirmation that each tranche of 4,170,000 Warrant Shares has been received, LJCI shall immediately wire USA the sum of $375,303 for each tranche.

3. The selling restrictions contained in the Addendum to Warrant to Purchase Common Stock dated April 21, 2004 shall remain in full force and effect.

4. Except as specifically amended herein, all other terms and conditions of the Conversion Warrant shall remain in full force and effect.

IN WITNESS WHEREOF, USA and LJCI have caused this Addendum to Warrant to Purchase Common Stock to be signed by its duly authorized officers on the date first set forth above.

USA Technologies, Inc.	La Jolla Cove Investors, Inc.
By: /s/George R. Jensen	By: /s/Travis W. Huff
Name: George R. Jensen	Name: Travis Huff
Title: Chairman & CEO	Title: Portfolio Mgr

2004-A COMMON STOCK
SUBSCRIPTION AGREEMENT

USA TECHNOLOGIES, INC.
100 Deerfield Lane, Suite 140
Malvern, Pennsylvania 19355
Attn: George R. Jensen, Jr.,
Chief Executive Officer

Dear Mr. Jensen:

I understand that the Company is offering for sale (the "Offering") up to 35,000,000 shares of Common Stock of the Company ("Common Stock") at a price of $.15 per share.

The Offering will terminate on April 30, 2004, unless extended by the Company for up to thirty additional days. There is no minimum offering amount, and all subscription proceeds would be placed directly into the bank accounts of the Company as subscription funds are received. If all of the Common Stock offered in the private placement is sold, the Company would receive gross proceeds of $5,250,000. The Company reserves the right to increase the amount of Common Stock sold in this Offering and to extend the termination date of the Offering at any time and from time to time without notice to the undersigned.

Promptly following the termination of the Offering, the Company shall file (expected to be filed on or before June 30, 2004) and use its best efforts to have declared effective, an appropriate registration statement with the Securities and Exchange Commission registering all of the shares of Common Stock for resale under the Securities Act of 1933, as amended (the "Act"). The Company shall use its best efforts to keep the registration statement current and effective for a period of two years from the completion date of the Offering.

For a period of six months following the termination of this Offering, the Company shall not sell Equity Securities for a price per share of less than fifteen cents ($.15)(subject to equitable adjustment for stock splits or stock combinations or other stock reorganizations). For purposes hereof, "Equity Securities" shall mean either Common Stock or any debt or equity securities

which are convertible into, exercisable or exchangeable for, or carry the right to receive additional shares of Common Stock. The restrictions of this paragraph shall not apply to (i) any transaction involving issuances of securities in connection with a merger, consolidation, acquisition or sale of assets, or in connection with any strategic partnership or joint venture (the primary purpose of which is not to raise equity capital), or (ii) in connection with the disposition or acquisition of a business, product or license by the Company or (iii) to the issuance of securities upon exercise or conversion of the Company's options, warrants or other convertible securities (including notes) outstanding as of April 16, 2004, or (iv) to the grant of additional options or warrants, or the issuance of additional securities, under any Company stock option or stock plan for the benefit of the Company's employees, directors or consultants or under any Employee Benefit Plan (as defined in Rule 405 of the Act).

1. Subscription. The undersigned hereby subscribes to purchase the number of shares of Common Stock indicated below in accordance with the terms and conditions of the Offering Materials (as defined below). I understand that this subscription may be rejected at the discretion of the Company, in whole or in part, and that I must qualify as an "accredited investor" under Regulation D, as promulgated by the Securities and Exchange Commission ("SEC" or "Commission") under the Act.

2. Verification of Suitability and Status as "Accredited Investor" under Regulation D. I understand that in order to subscribe for the Common Stock in the Offering, I must be an "accredited investor" as defined in Rule 501 of Regulation D under the Act and hereby represent and warrant to the Company that I am an "accredited investor." In this regard, the undersigned is an "accredited investor" by virtue of qualifying under one of the following categories (check appropriate item):

the undersigned is a natural person whose individual net worth with that person's spouse (if married), at the time of purchase exceeds $1,000,000; or

the undersigned is a natural person who had an individual income in excess of $200,000 during each of the last two calendar years, or joint income with that person's spouse (if married) in excess of

$300,000 in each of those years, and has a reasonable expectation of reaching the same income level during the current calendar year; or

the undersigned is a corporation or partnership not formed for the purpose of investing in the Company with total assets in excess of $5,000,000; or

the undersigned is an investment company registered under the Investment Company Act of 1940; or

the undersigned is an entity in which all the equity owners are accredited investors.

3. Representations by Undersigned. The undersigned represents and warrants to the Company as follows:

(a) I have received, read and understand the provisions of each of the following: (i) the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 2003; (ii) the Company's Amendment No. 1 to Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on December 19, 2003 (File No. 333-110148); (iii) the Risk Factors section incorporated by reference herein in Section 3(i) hereof; (iv) the Company's Form 10-QSB for the quarter ended September 30, 2003; (v) the Company's Form 10-QSB for the quarter ended December 31, 2003; (vi) the definitive proxy statement of the Company filed with the SEC on December 15, 2003, and (vii) any report, form, or schedule filed by the Company with the SEC under the Securities Exchange Act of 1934 on or prior to the date of execution hereof by the undersigned. I understand that all of the foregoing together with this Subscription Agreement shall be referred to herein as "Offering Materials".

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

have had the opportunity to verify the accuracy of the information contained in the Offering Materials.

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

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

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

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

(f) I am able to bear the economic risks related to purchase of the Common Stock for an indefinite period of time (i.e., I am able to afford a complete loss of the Common Stock I am subscribing to purchase).

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

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

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

(j) I understand that my right to transfer the Common Stock will be restricted as set forth on the certificate evidencing the Common Stock. Such restrictions include provisions against transfer unless such transfer is not in violation of the Act, or applicable state securities laws (including investor suitability standards).

(k) All information which I have provided to the Company including, but not limited to, my Social Security or tax identification number, my financial position, and status as an accredited investor, and my knowledge of financial and business matters is true, correct and complete as of the date of execution of this Subscription Agreement. I undertake to provide promptly to the Company written notice of any material changes in my financial position or otherwise and such information will be true, correct and complete as of the date given. I understand that the Company will rely in a material degree upon the representations contained herein.

(l) The undersigned maintains a domicile or business at the address shown on the signature page of this Subscription Agreement, at which address the undersigned has subscribed for the Common Stock.

(m) I understand that a legend may be placed on any stock certificate representing the Common Stock substantially to the following effect:

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

(n) I understand that the Company may require me to meet additional suitability standards if it deems it necessary or advisable to comply with any applicable state securities or other laws.

4. Transferability of Subscription. The undersigned agrees not to transfer or assign this Subscription Agreement, or any of the undersigned's interest herein without the prior written consent of the Company.

5. Revocation. The undersigned agrees that the undersigned shall not cancel, terminate or revoke this Subscription Agreement or any agreement of the undersigned made hereunder and that this Subscription Agreement shall survive the death or disability of the undersigned.

6. Common Stock Subscription. The undersigned hereby subscribes at $.15 per share for shares of Common Stock of USA Technologies, Inc., and agrees to pay _________________ Dollars ($________) in full payment therefor by check delivered herewith made payable to "USA Technologies, Inc." or by wire transfer of immediately available funds to the Company. The Company shall deliver to the undersigned at the address indicated below a certificate registered in the name

of the undersigned representing the shares of Common Stock subscribed for by the undersigned.

The Company may reject this offer in whole or in part by refunding all or any portion of the subscription monies paid thereon. This Subscription Agreement, upon acceptance by the Company shall be binding upon the heirs, executors, administrators and successors of the undersigned. The undersigned hereby represents that the undersigned has read this entire Subscription Agreement and Offering Materials.

IN WITNESS WHEREOF, the undersigned has executed this Subscription Agreement on this day of , 2004.

#1	#2
------------------------------------	-----------------------------------
Signature	Signature
#1	#2
------------------------------------	-----------------------------------
Witness	Witness
Investor #1 Print or Type Name	Investor #2 Print or Type Name
------------------------------------	-----------------------------------
------------------------------------	-----------------------------------
Occupation Telephone No.	Occupation Telephone No.
------------------------------------	-----------------------------------
Telephone No. (Residence)	Telephone No. (Residence)
------------------------------------	-----------------------------------
Social Security or Tax I.D. No.	Social Security or Tax I.D. No.
------------------------------------	-----------------------------------
Street Address	Street Address
------------------------------------	-----------------------------------
City State Zip	City State Zip
	ACCEPTED:
	USA TECHNOLOGIES, INC.
Dated: ------------------------	By: --------------------------

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: May 17, 2004

/s/ George R. Jensen, Jr.

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: May 17, 2004

/s/David M. DeMedio

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 March 31, 2004 (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.

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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 March 31, 2004 (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
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David M. DeMedio
Chief Financial Officer