SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 8-K

Current Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of report (Date of earliest event reported): November 12, 2015

# USA TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

| Pennsylvania | 001-33365 | 23-2679963 |
| --- | --- | --- |
| (State or other jurisdiction of incorporation or organization) | (Commission File Number) | (I.R.S. Employer Identification No.) |

100 Deerfield Lane, Suite 140
Malvern, Pennsylvania 19355
(Address of principal executive offices and zip code)

Registrant’s telephone number, including area code: 610-989-0340

n/a
Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 2.02. Results of Operations and Financial Condition**

On November 12, 2015, USA Technologies, Inc. (the "Company"), issued a press release reporting financial results for the fiscal quarter ended September 30, 2015, a copy of which is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

**Item 9.01. Financial Statements and Exhibits**

Exhibit 99.1 Press Release of the Company dated November 12, 2015

SIGNATURES

Pursuant to the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

USA TECHNOLOGIES, INC.

Dated: November 13, 2015

By: /s/ Stephen P. Herbert
Stephen P. Herbert,
Chairman and Chief Executive Officer

## Index to Exhibits

| Exhibit No. | Description of Exhibit |
|---|---|
| 99.1 | Press Release of the Company dated November 12, 2015 |

**Exhibit 99.1**

**USA Technologies Announces First Quarter Fiscal Year 2016 Results**

**MALVERN, Pa. – Nov. 12, 2015** – USA Technologies, Inc. (NASDAQ:USAT) ("USAT"), a leader of wireless, cashless payment and M2M/IoT solutions for small-ticket, self-serve retailing industries, today reported results for the first quarter fiscal year ended September 30, 2015.

**First Quarter Financial Highlights:**

- Total revenue of $16.6 million, a year-over-year increase of 35%
- 349,000 connections to ePort service, a year-over-year increase of 26%
- Record 10,275 customers compared to 7,900 in the same quarter last year
- Record license and transaction fee revenue of $12.9 million, a year-over-year increase of 27%
- License and transaction fees gross margins increased to 33% from 29% in the prior year
- Equipment gross margins increased to 23% from 11% in the prior year
- Adjusted EBITDA of $1.7 million, a year-over-year increase of 85%
- Achieved positive free cash flow* for third straight quarter fueled by success in the company’s QuickStart third-party leasing program

*(Defined as cash flow from operations less cash used for the purchase of equipment for the JumpStart rental program.)

**First Quarter Financial Highlights & Transaction Data:**

| *(Connections and $'s in thousands, except per share data)* | Three months ended, unless noted September 30, 2015 | 2014 | # Change | % Change |
|---|---|---|---|---|
| Revenues: | | | | |
| License and transaction fees | $ 12,925 | $ 10,156 | $ 2,769 | 27% |
| Equipment sales | 3,675 | 2,096 | 1,579 | 75% |
| Total revenues | $ 16,600 | $ 12,252 | $ 4,348 | 35% |
| License and transaction fees gross margin | 32.6% | 28.6% | 4.0% | 14.0% |
| Equipment sales gross margin | 22.5% | 11.0% | 11.5% | 104.5% |
| Operating income (loss) | $ 112 | $ (666) | $ 778 | NC |
| Adjusted EBITDA | $ 1,734 | $ 946 | $ 788 | 83% |
| Net income (loss) | $ 360 | $ (61) | $ 421 | NC |
| Net earnings (loss) per common share - diluted | $ (0.01) | $ (0.01) | NC | NC |
| Net New Connections | 16 | 10 | 6 | 60% |
| Total Connections (at period end) | 349 | 276 | 73 | 26% |
| Total Number of Transactions | 68,800 | 48,700 | 20,100 | 41% |
| Transaction Volume | $ 126,400 | $ 89,200 | $ 37,200 | 42% |

"The growing number of transactions and transaction volume, in addition to the growing number of USAT customers, indicate that we are capitalizing on the cashless payment trend and delivering on our strategic initiatives," said Stephen P. Herbert, USA Technologies' chairman and chief executive officer. "Many of our largest customers are moving to connect 100% of their machines to USAT's ePort Connect technology incentivized by our Premium Support Service, the latest product offering which provides customers with a cross-functional service model to realize the impact of USAT's ePort Connect technology on their business, including increased awareness and accelerated adoption of cashless payments."

**Fiscal 2016 Outlook**

For full year fiscal 2016, management expects to add more than 75,000 net new connections , bringing total connections on the service to over 400,000 and expects total revenue to be between $69 million and $71 million. Additionally, we anticipate that QuickStart will remain a popular program for customers, and management expects it to drive positive free cash flows in fiscal year 2016. We also expect to have year-over-year increases of adjusted EBITDA and non-GAAP net income.

**Webcast and Conference Call**

Management will host a conference call and webcast the event beginning at 8:30 a.m. Eastern Time tomorrow, November 13, 2015.

To participate in the conference call, please dial (866) 393-1608 approximately 10 minutes prior to the call. International callers should dial (224) 357-2194. Please reference conference ID # 70551888.

A live webcast of the conference call will be available at http://investor.usatech.com/events.cfm. Please access the website 15 minutes prior to the start of the call to download and install any necessary audio software. A telephone replay of the conference call will be available from 11:30 a.m. Eastern Time on November 13, 2015 until 11:59 p.m. Eastern Time on November 16, 2015 and may be accessed by calling (855) 859-2056 (domestic dial-in) or (404) 537-3406 (international dial-in) and reference conference ID # 70551888. An archived replay of the conference call will also be available in the investor relations section of the company's website.

**About USA Technologies**

USA Technologies is a leader of wireless, cashless payment and M2M/IoT telemetry solutions for small-ticket, self-serve retailing industries. ePort Connect® is the company's flagship service platform, a PCI-compliant, end-to-end suite of cashless payment and telemetry services specially tailored to fit the needs of small ticket, self-service retailing industries. USA Technologies also provides a broad line of cashless acceptance technologies including its NFC-ready ePort® G-series, ePort Mobile™ for customers on the go, and QuickConnect, an API Web service for developers.USA Technologies has been granted 87 patents; and has agreements with Verizon, Chase Paymentech, Visa, MasterCard, and customers such as Compass and others. Visit the website at www.usatech.com.

**Forward-looking Statements:**

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: All statements other than statements of historical fact included in this release, including without limitation the business strategy and the plans and objectives of USAT's management for future operations, are forward-looking statements. When used in this release, words such as "anticipate", "believe", "estimate", "expect", "intend", and similar expressions, as they relate to USAT or its management, identify forward looking statements. Such forward-looking statements are based on the beliefs of USAT's management, as well as assumptions made by and information currently available to USAT's management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including but not limited to, the ability of management to accurately predict or forecast future earnings or taxable income of USAT; the incurrence by us of any unanticipated or unusual non-operational expenses which would require us to divert our cash resources from achieving our business plan; the ability of USAT to retain key customers from whom a significant portion of its revenues is derived; the ability of USAT to compete with its competitors to obtain market share; whether USAT's customers continue to utilize USAT's transaction processing and related services, as our customer agreements are generally cancelable by the customer on thirty to sixty days' notice; the ability of USAT to raise funds in the future through the sales of securities or debt financings in order to sustain its operations if an unexpected or unusual non-operational event would occur; the ability of USAT to use available data to predict future market conditions, consumer behavior and any level of cashless usage; the ability to prevent a security breach of our systems or services or third party services or systems utilized by us; whether any patents issued to USAT will provide USAT with any competitive advantages or adequate protection for its products, or would be challenged, invalidated or circumvented by others; the ability of USAT to operate without infringing the proprietary rights of others; whether USAT would be able to sell sufficient ePort hardware to third party leasing companies as part of the QuickStart program in order to continue to increase cash flows from operations; and whether USAT's existing or anticipated customers purchase, rent or utilize ePort devices or our other products or services in the future at levels currently anticipated by USAT. Readers are cautioned not to place undue reliance on these forward-looking statements. Any forward-looking statement made by us in this release speaks only as of the date of this release. Unless required by law, USAT does not undertake to release publicly any revisions to these forward-looking statements to reflect future events or circumstances or to reflect the occurrence of unanticipated events.

**Financial Schedules:**

A. Comparative Income Statement For 3 Months Ended September 30, 2015 and September 30, 2014

B. Five Quarter Select Key Performance Indicators

C. Comparative Condensed Balance Sheets September 30, 2015 to June 30, 2015

D. Five Quarter Statement of Operations and Adjusted EBITDA

E. Five Quarter Selling, General, & Administrative Expenses

F. Five Quarter Condensed Balance Sheet

G. Five Quarter Condensed Statement of Cash Flows

H. Consolidated Statement of Shareholders' Equity

I. Reconciliation of Net Loss to Non-GAAP Net Income (Loss) and Net Earnings Loss Per Common Share - Diluted to Non-GAAP Net Earnings (Loss) Per Common Share – Diluted

*NEW ACCOUNTING CLASSIFICATION*

*The Company is changing the manner in which it presents certain uncollected customer accounts receivable and the related allowance in its consolidated balance sheets and the related statements of cash flows. These accounts receivable represent a large number of small balance amounts due from customers for processing and service fees which had not been billed to customers, and as to which, there had been no customer transaction proceeds from which the Company could collect the amounts due in accordance with its normal procedures. The previous accounting classification recorded these amounts as a reduction of its accounts payable in the consolidated balance sheets and the related statements of cash flows. The new accounting classification is more appropriate now, as the uncollected customer accounts have been outstanding for longer time periods and are larger in the aggregate than when the accounting process was established many years ago.*

*Accordingly, the respective balances for all prior periods presented in these financial statements were reclassified in order to be consistent and comparable to the accounting treatment of these items in our September 30, 2015 financial statements. The new accounting classification as well as the reclassification for prior periods had no effect on the consolidated statements of operations or the consolidated statements of shareholders' equity.*

## (A) Comparative Income Statement For 3 Months Ended September 30, 2015 and September 30, 2014

| ($ in thousands, except share and per share data) (unaudited) | For the three months ended September 30, 2015 | % of Sales | 2014 | % of Sales | Change | % Change |
|---|---|---|---|---|---|---|
| Revenues: | | | | | | |
| License and transaction fees | $ 12,925 | 77.9% | $ 10,156 | 82.9% | $ 2,769 | 27.3% |
| Equipment sales | 3,675 | 22.1% | 2,096 | 17.1% | 1,579 | 75.3% |
| Total revenues | 16,600 | 100.0% | 12,252 | 100.0% | 4,348 | 35.5% |
| Costs of sales/revenues: | | | | | | |
| Cost of services | 8,705 | 67.4% | 7,251 | 71.4% | 1,454 | 20.1% |
| Cost of equipment | 2,848 | 77.5% | 1,866 | 89.0% | 982 | 52.6% |
| Total costs of sales/revenues | 11,553 | 69.6% | 9,117 | 74.4% | 2,436 | 26.7% |
| Gross profit: | | | | | | |
| License and transaction fees | 4,220 | 32.6% | 2,905 | 28.6% | 1,315 | 45.3% |
| Equipment sales | 827 | 22.5% | 230 | 11.0% | 597 | 259.4% |
| Total gross profit | 5,047 | 30.4% | 3,135 | 25.6% | 1,912 | 61.0% |
| Operating expenses: | | | | | | |
| Selling, general and administrative | 4,796 | 28.9% | 3,632 | 29.6% | 1,164 | 32.0% |
| Depreciation | 139 | 0.8% | 169 | 1.4% | (30) | -17.8% |
| Total operating expenses | 4,935 | 29.7% | 3,801 | 31.0% | 1,134 | 29.8% |
| Operating income (loss) | 112 | 0.7% | (666) | -5.4% | 778 | -116.8% |
| Other income (expense): | | | | | | |
| Interest income | 51 | 0.3% | 10 | 0.1% | 41 | 410.0% |
| Interest expense | (119) | -0.7% | (75) | -0.6% | (44) | 58.7% |
| Change in fair value of warrant liabilities | 343 | 2.1% | 310 | 2.5% | 33 | 10.6% |
| Total other income, net | 275 | 1.7% | 245 | 2.0% | 30 | 12.2% |
| Income (loss) before (benefit) provision for income taxes | 387 | 2.3% | (421) | -3.4% | 808 | -191.9% |
| Benefit (provision) for income taxes | (27) | | 360 | | (387) | -107.5% |
| Net income (loss) | 360 | 2.2% | (61) | -0.5% | 421 | -690.2% |
| Cumulative preferred dividends | (332) | -2.0% | (332) | -2.7% | - | 0.0% |
| Net income (loss) applicable to common shares | $ 28 | 0.2% | $ (393) | -3.2% | $ 421 | -107.1% |
| Net earnings (loss) per common share - basic | $ - | | $ (0.01) | | $ 0.01 | -100.0% |
| Basic weighted average number of common shares outstanding | 35,788,199 | | 35,586,455 | | 201,744 | 0.6% |
| Net loss per common share - diluted | $ (0.01) | | $ (0.01) | | $ 0.00 | -9.4% |
| Diluted weighted average number of common shares outstanding | 36,427,683 | | 35,586,455 | | 841,228 | 2.4% |
| Adjusted EBITDA | $ 1,734 | 10.4% | $ 946 | 7.7% | $ 788 | 83.3% |
| Non-GAAP net income (loss) applicable to common shares | $ (288) | -6.8% | $ (1,072) | -8.7% | $ 784 | -73.1% |

**(B) Five Quarter Select Key Performance Indicators:**

| (unaudited) | Three months ended | | | | |
|---|---|---|---|---|---|
| | **September 30, 2015** | **June 30, 2015** | **March 31, 2015** | **December 31, 2014** | **September 30, 2014** |
| **Connections:** | | | | | |
| Gross New Connections | 20,000 | 34,000 | 24,000 | 14,000 | 13,000 |
| % from Existing Customer Base | 86% | 89% | 82% | 82% | 84% |
| Net New Connections | 16,000 | 31,000 | 14,000 | 12,000 | 10,000 |
| Total Connections | 349,000 | 333,000 | 302,000 | 288,000 | 276,000 |
| | | | | | |
| **Customers:** | | | | | |
| New Customers Added | 675 | 675 | 475 | 550 | 600 |
| Total Customers | 10,275 | 9,600 | 8,925 | 8,450 | 7,900 |
| | | | | | |
| **Volumes:** | | | | | |
| Total Number of Transactions (millions) | 68.8 | 62.2 | 54.8 | 51.0 | 48.7 |
| Transaction Volume ($millions) | $ 126.4 | $ 112.8 | $ 97.7 | $ 89.3 | $ 89.2 |
| | | | | | |
| **Financing Structure of Connections:** | | | | | |
| JumpStart | 10.2% | 6.0% | 11.3% | 14.4% | 22.7% |
| QuickStart & All Others * | 89.8% | 94.0% | 88.7% | 85.6% | 77.3% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

**Includes credit sales with standard trade receivable terms*

## (C) Comparative Condensed Balance Sheets September 30, 2015 to June 30, 2015

| ($ in thousands)<br>(unaudited) | | September 30, 2015 | June 30, 2015 | $ Change | % Change |
|---|---|---|---|---|---|
| Assets | | | | | |
| Current assets: | | | | | |
| Cash | | $ 11,592 | $ 11,374 | $ 218 | 2% |
| Accounts receivable, less allowance | * | 6,448 | 5,971 | 477 | 8% |
| Finance receivables | | 946 | 941 | 5 | 1% |
| Inventory | | 3,718 | 4,216 | (498) | -12% |
| Deferred income taxes | | 1,258 | 1,258 | - | 0% |
| Prepaid expenses and other current assets | | 625 | 574 | 51 | 9% |
| Total current assets | | 24,587 | 24,334 | 253 | 1% |
| | | | | | |
| Finance receivables, less current portion | | 3,525 | 3,698 | (173) | -5% |
| Property and equipment, net | | 11,890 | 12,869 | (979) | -8% |
| Goodwill and intangbiles | | 8,095 | 8,095 | - | 0% |
| Deferred income taxes | | 25,761 | 25,788 | (27) | 0% |
| Other assets | | 342 | 350 | (8) | -2% |
| Total assets | | $ 74,200 | $ 75,134 | $ (934) | -1% |
| | | | | | |
| Liabilities and shareholders' equity | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | * | $ 9,498 | $ 10,542 | $ (1,044) | -10% |
| Accrued expenses | | 2,117 | 2,108 | 9 | 0% |
| Line of credit | | 4,000 | 4,000 | - | 0% |
| Current obligations under long-term debt | | 583 | 478 | 105 | 22% |
| Income taxes payable | | 54 | 54 | - | 0% |
| Deferred gain from sale-leaseback transactions | | 860 | 860 | - | 0% |
| Total current liabilities | | 17,112 | 18,042 | (930) | -5% |
| Long-term liabilities | | | | | |
| Long-term debt, less current portion | | 1,758 | 1,854 | (96) | -5% |
| Accrued expenses, less current portion | | 38 | 49 | (11) | -22% |
| Warrent liabilities | | 635 | 978 | (343) | -35% |
| Deferred gain from sale-leaseback transactions, less current portion | | 685 | 900 | (215) | -24% |
| Total long-term liabilities | | 3,116 | 3,781 | (665) | -18% |
| Total liabilities | | 20,228 | 21,823 | (1,595) | -7% |
| | | | | | |
| Shareholders' equity: | | | | | |
| Preferred stock, no par value | | 3,138 | 3,138 | - | 0% |
| Common stock, no par value | | 225,175 | 224,874 | 301 | 0% |
| Accumulated deficit | | (174,341) | (174,701) | 360 | 0% |
| Total shareholders' equity | | 53,972 | 53,311 | 661 | 1% |
| Total liabilities and shareholders' equity | | $ 74,200 | $ 75,134 | $ (934) | -1% |
| | | | | | |
| Total current assets | | $ 24,587 | $ 24,334 | $ 253 | 1% |
| Total current liabilities | | 17,112 | 18,042 | (930) | -5% |
| Net working capital | | $ 7,475 | $ 6,292 | $ 1,183 | 19% |
| | | | | | |
| * Accounts receivable, net of allowance for uncollectible accounts and accounts payable have increased by the following amounts due to reclassifications | | $ - | $ 1,299 | | |

**(D) Five Quarter Statement of Operations and Adjusted EBITDA**

| ($'s in thousands) (unaudited) | For the three months ending September 30, 2015 | % of Sales | June 30, 2015 | % of Sales | March 31, 2015 | % of Sales | December 31, 2014 | % of Sales | September 30, 2014 | % of Sales |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | | | | |
| License and transaction fees | $ 12,925 | 77.9% | $ 11,938 | 67.7% | $ 11,060 | 72.0% | $ 10,480 | 81.7% | $ 10,156 | 82.9% |
| Equipment Sales | 3,675 | 22.1% | 5,708 | 32.3% | 4,298 | 28.0% | 2,341 | 18.3% | 2,096 | 17.1% |
| Total revenue | 16,600 | 100.0% | 17,646 | 100.0% | 15,358 | 100.0% | 12,822 | 100.0% | 12,252 | 100.0% |
| Costs of sales/revenues: | | | | | | | | | | |
| License and transaction fees | 8,705 | 67.4% | 7,863 | 65.9% | 7,157 | 64.7% | 7,158 | 68.3% | 7,251 | 71.4% |
| Equipment sales | 2,848 | 77.5% | 4,975 | 87.2% | 3,055 | 71.1% | 1,930 | 82.4% | 1,866 | 89.0% |
| Total costs of sales/revenues | 11,553 | 69.6% | 12,838 | 72.8% | 10,213 | 57.9% | 9,088 | 51.5% | 9,117 | 51.7% |
| Gross Profit: | | | | | | | | | | |
| License and transaction fees | 4,220 | 32.6% | 4,075 | 34.1% | 3,903 | 35.3% | 3,323 | 31.7% | 2,905 | 28.6% |
| Equipment sales | 827 | 22.5% | 733 | 12.8% | 1,243 | 28.9% | 412 | 17.6% | 230 | 11.0% |
| Total gross profit | 5,047 | 30.4% | 4,808 | 27.2% | 5,145 | 33.5% | 3,734 | 29.1% | 3,134 | 25.6% |
| Operating expenses: | | | | | | | | | | |
| Selling, general and administrative | 4,796 | 28.9% | 5,009 | 28.4% | 4,280 | 27.9% | 3,530 | 27.5% | 3,632 | 29.6% |
| Depreciation | 139 | 0.8% | 156 | 0.9% | 135 | 0.9% | 152 | 1.2% | 169 | 1.4% |
| Total operating expenses | 4,935 | 29.7% | 5,165 | 29.3% | 4,415 | 28.7% | 3,682 | 28.7% | 3,801 | 31.0% |
| Operating income (loss) | 112 | 0.7% | (357) | -2.0% | 731 | 4.8% | 51 | 0.4% | (666) | -5.4% |
| Other income (expense): | | | | | | | | | | |
| Interest income | 51 | 0.3% | 42 | 0.3% | 26 | 0.2% | 4 | 0.0% | 10 | 0.1% |
| Other income | - | 0.0% | 52 | 0.3% | - | 0.0% | - | 0.0% | - | 0.0% |
| Interest expense | (119) | -0.7% | (92) | -0.6% | (85) | -0.5% | (49) | -0.3% | (75) | -0.5% |
| Change in fair value of warrant liabilities | 343 | 2.1% | 263 | 1.6% | (1,101) | -6.6% | 135 | 0.8% | 310 | 1.9% |
| Total other income (expense), net | 275 | 1.7% | 265 | 1.5% | (1,160) | -7.6% | 90 | 0.7% | 245 | 2.0% |
| Income (loss) before (benefit) provision for income taxes | 387 | 2.3% | (92) | -0.5% | (429) | -2.8% | 141 | 1.1% | (421) | -3.4% |
| Benefit (provision) for income taxes | (27) | -0.2% | (109) | -0.6% | (138) | -0.9% | (402) | -3.1% | 360 | 2.9% |
| Net income (loss) | 360 | 2.2% | (201) | -1.1% | (567) | -3.7% | (261) | -2.0% | (61) | -0.5% |
| Less interest income | (51) | -0.3% | (42) | -0.3% | (26) | -0.2% | (4) | 0.0% | (10) | -0.1% |
| Plus interest expenses | 119 | 0.7% | 92 | 0.6% | 85 | 0.5% | 49 | 0.3% | 75 | 0.5% |
| Plus income tax expense (benefit) | 27 | 0.2% | 109 | 0.7% | 138 | 0.8% | 402 | 2.4% | (360) | -2.2% |
| Plus | 1,350 | 8.1% | 1,381 | 8.3% | 1,433 | 8.6% | 1,444 | 8.7% | 1,473 | 8.9% |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| depreciation expense | | | | | | | | | | |
| Less change in fair value of warrant liabilities | (343) | -2.1% | (263) | -1.6% | 1,101 | 6.6% | (135) | -0.8% | (310) | -1.9% |
| Plus stock-based compensation | 272 | 1.6% | 175 | 1.1% | 216 | 1.3% | 186 | 1.1% | 139 | 0.8% |
| Adjusted EBITDA | $ 1,734 | 10.4% | $ 1,251 | 7.1% | $ 2,380 | 15.5% | $ 1,681 | 13.1% | $ 946 | 7.7% |

*See discussion of Non-GAAP financial measures later in this document*

## (E) Five Quarter Selling, General, & Administrative Expenses

| ($ in thousands) (unaudited) | Three months ended September 30, 2015 | % of SG&A | June 30, 2015 | % of SG&A | March 30, 2015 | % of SG&A | December 31 2014 | % of SG&A | September 30, 2014 | % of SG&A |
|---|---|---|---|---|---|---|---|---|---|---|
| Salaries and benefit costs | $ 2,685 | 56.0% | $ 2,295 | 45.8% | $ 2,533 | 59.2% | $ 2,131 | 60.4% | $ 2,204 | 60.7% |
| Marketing related expenses | 333 | 6.9% | 580 | 11.6% | 184 | 4.3% | 215 | 6.1% | 247 | 6.8% |
| Professional services | 799 | 16.7% | 844 | 16.8% | 708 | 16.5% | 460 | 13.0% | 498 | 13.7% |
| Bad debt expense | 236 | 4.9% | 497 | 9.9% | 303 | 7.1% | 141 | 4.0% | 159 | 4.4% |
| Premises, equipment and insurance costs | 399 | 8.3% | 475 | 9.5% | 372 | 8.7% | 370 | 10.5% | 402 | 11.0% |
| Research and development expenses | 191 | 4.0% | 154 | 3.1% | 96 | 2.2% | 115 | 3.3% | 50 | 1.4% |
| Other expenses | 153 | 3.2% | 164 | 3.3% | 84 | 2.0% | 98 | 2.8% | 72 | 2.0% |
| Total SG&A expenses | $ 4,796 | 100% | $ 5,009 | 100% | $ 4,280 | 100% | $ 3,530 | 100% | $ 3,632 | 100% |
| SG&A expenses as a percentage of revenue | 28.9% | | 28.4% | | 27.9% | | 27.5% | | 29.6% | |

## (F) Five Quarter Condensed Balance Sheet and Other Data

| ($ in thousands) (unaudited) | | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Current assets: | | | | | | |
| Cash | | $ 11,592 | $ 11,374 | $ 8,475 | $ 6,734 | $ 10,916 |
| Accounts receivable, less allowance | * | 6,448 | 5,971 | 5,245 | 4,591 | 3,798 |
| Finance receivables | | 946 | 941 | 750 | 363 | 279 |
| Inventory | | 3,718 | 4,216 | 4,241 | 3,448 | 2,629 |
| Other current assets | | 1,883 | 1,832 | 1,322 | 1,495 | 1,285 |
| Total current assets | | 24,587 | 24,334 | 20,033 | 16,631 | 18,907 |
| Finance receivables, less current portion | | 3,525 | 3,698 | 3,505 | 1,643 | 949 |
| Prepaid expenses and other assets | | 342 | 350 | 423 | 411 | 383 |
| Property and equipment, net | | 11,890 | 12,869 | 13,574 | 16,451 | 17,780 |
| Deferred income taxes | | 25,761 | 25,788 | 26,169 | 26,290 | 26,714 |
| Goodwill and intangibles | | 8,095 | 8,095 | 8,095 | 8,095 | 8,095 |
| Total assets | | $ 74,200 | $ 75,134 | $ 71,799 | $ 69,521 | $ 72,828 |
| Liabilities and shareholders' equity | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and accrued expenses | * | $ 11,615 | $ 12,650 | $ 9,044 | $ 8,945 | $ 10,764 |
| Line of credit | | 4,000 | 4,000 | 4,000 | 4,000 | 5,000 |
| Other current liabilities | | 1,497 | 1,392 | 1,294 | 1,064 | 1,068 |
| Total current liabilities | | 17,112 | 18,042 | 14,338 | 14,009 | 16,832 |
| Long-term liabilities | | | | | | |
| Total long-term liabilities | | 3,116 | 3,781 | 4,134 | 1,834 | 2,181 |
| Total liabilities | | 20,228 | 21,823 | 18,472 | 15,843 | 19,013 |
| Shareholders' equity: | | | | | | |
| Total shareholders' equity | | 53,972 | 53,311 | 53,327 | 53,678 | 53,815 |
| Total liabilities and shareholders' equity | | $ 74,200 | $ 75,134 | $ 71,799 | $ 69,521 | $ 72,828 |
| Total current assets | | $ 24,587 | $ 24,334 | $ 20,033 | $ 16,631 | $ 18,907 |
| Total current liabilities | | 17,112 | 18,042 | 14,338 | 14,009 | 16,832 |
| Net working capital | | $ 7,475 | $ 6,292 | $ 5,695 | $ 2,622 | $ 2,075 |
| * Accounts receivable, net of allowance for uncollectible accounts and accounts payable have increase by the following amounts due to reclassifications | | $ - | $ 1,299 | $ 1,842 | $ 1,832 | $ 1,353 |
| Net cash provided by (used in) operating activities | | $ 362 | $ 2,680 | $ 65 | $ (3,039) | $ (1,405) |
| Purchase of property for rental program | | - | - | - | - | (1,642) |
| Free cash flow | | $ 362 | $ 2,680 | $ 65 | $ (3,039) | $ 237 |

## (G) Five Quarter Condensed Statement of Cash Flows

| ($ in thousands) (unaudited) | Three months ended September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 |
|---|---|---|---|---|---|
| OPERATING ACTIVITIES: | | | | | |
| Net income (loss) | $ 360 | $ (201) | $ (567) | $ (261) | $ (61) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Charges incurred in connection with share-based compensation | 272 | 175 | 216 | 186 | 139 |
| Gain on disposal of property and equipment | (1) | (4) | (6) | (4) | (3) |
| Bad debt expense | 236 | 497 | 303 | 141 | 159 |
| Depreciation | 1,350 | 1,381 | 1,433 | 1,444 | 1,473 |
| Change in fair value of warrant liabilities | (343) | (263) | 1,101 | (135) | (310) |
| Deferred income taxes, net | 27 | 31 | 121 | 423 | (361) |
| Gain on sale of finance receivables | - | (52) | - | - | - |
| Recognition of deferred gain from sale-leaseback transactions | (215) | (215) | (215) | (215) | (188) |
| Changes in operating assets and liabilities: | | | | | |
| Accounts receivable | (713) | (1,223) | (984) | (842) | 5 |
| Finance receivables | 168 | (332) | (2,249) | (778) | (756) |
| Inventory | 219 | (639) | 651 | (805) | (1,138) |
| Prepaid expenses and other current assets | 48 | (97) | 151 | (247) | (111) |
| Accounts payable | (1,044) | 3,491 | (141) | (1,859) | (46) |
| Accrued expenses | (2) | 93 | 234 | (87) | (186) |
| Income taxes payable | - | 37 | 17 | - | (21) |
| Net change in operating assets and liabilities | (1,324) | 1,330 | (2,321) | (4,618) | (2,253) |
| Net cash provided by (used in) operating activities | 362 | 2,680 | 65 | (3,039) | (1,405) |
| INVESTING ACTIVITIES: | | | | | |
| Purchase of property and equipment | (49) | (6) | (4) | (19) | (31) |
| Purchase of property for rental program | - | - | - | - | (1,642) |
| Proceeds from sale of rental equipment under sale-leaseback transaction | - | - | - | - | 4,994 |
| Proceeds from sale of property and equipment | 4 | 8 | 19 | 11 | 24 |
| Net cash provided by (used in) investing activities | (45) | 2 | 16 | (8) | 3,345 |
| FINANCING ACTIVITIES: | | | | | |
| Net proceeds from the issuance (retirement) of common stock and exercise of common stock warrants | 29 | - | - | (62) | - |
| Excess tax benefits from share-based compensation | - | 10 | - | - | - |
| Net Proceeds (retirement) of Debt | (128) | 207 | 1,660 | (1,073) | (96) |
| Net cash provided by (used in) financing activities | (99) | 217 | 1,660 | (1,135) | (96) |
| Net increase (decrease) in cash | 218 | 2,899 | 1,741 | (4,182) | 1,844 |
| Cash at beginning of period | 11,374 | 8,475 | 6,734 | 10,916 | 9,072 |
| Cash at end of period | $ 11,592 | $ 11,374 | $ 8,475 | $ 6,734 | $ 10,916 |
| *Supplemental disclosures of cash flow information:* | | | | | |
| Depreciation expense allocated to cost of services | $ 1,199 | $ 1,252 | $ 1,289 | $ 1,283 | $ 1,295 |
| Reclass of rental program property to (from) inventory, net | $ (279) | $ (719) | $ 1,374 | $ 14 | $ 4 |

**(H) Consolidated Statement of Shareholders' Equity**

| (unaudited)<br>($ in thousands) | Series A Convertible Preferred Stock Shares | Series A Convertible Preferred Stock Amount | Common Stock Shares | Common Stock Amount | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|
| Balance, June 30, 2015 | 442,968 | $ 3,138 | 35,747,242 | $ 224,874 | $ (174,701) | $ 53,311 |
| Exercise of warrants | - | - | 11,000 | 29 | - | 29 |
| Stock based compensation | | | | | | |
| 2013 Stock Incentive Plan | - | - | 25,976 | 157 | - | 157 |
| 2014 Stock Option Incentive Plan | - | - | - | 115 | - | 115 |
| Net income | - | - | - | - | 360 | 360 |
| Balance, September 30, 2015 | 442,968 | $ 3,138 | 35,784,218 | $ 225,175 | $ (174,341) | $ 53,972 |

**(I) Reconciliation of Net Loss to Non-GAAP Net Income (Loss) and Net Earnings Loss Per Common Share - Diluted to Non-GAAP Net Earnings (Loss) Per Common Share – Diluted**

| (unaudited)<br>($ in thousands) | Three months ended September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 |
|---|---|---|---|---|---|
| Net income (loss) | $ 360 | $ (201) | $ (567) | $ (261) | $ (61) |
| Non-GAAP adjustments: | | | | | |
| Non-cash portion of income tax provision/benefit | 27 | 72 | 121 | 402 | (369) |
| Fair value of warrant adjustment | (343) | (263) | 1,101 | (135) | (310) |
| Non-GAAP net income (loss) | $ 44 | $ (392) | $ 655 | $ 6 | $ (740) |
| | | | | | |
| Net income (loss) | $ 360 | $ (201) | $ (567) | $ (261) | $ (61) |
| Cumulative preferred dividends | (332) | - | (332) | - | (332) |
| Net income (loss) applicable to common shares | $ 28 | $ (201) | $ (899) | $ (261) | $ (393) |
| | | | | | |
| Non-GAAP net income (loss) | $ 44 | $ (392) | $ 655 | $ 6 | $ (740) |
| Cumulative preferred dividends | (332) | - | (332) | - | (332) |
| Non-GAAP net income (loss) applicable to common shares | $ (288) | $ (392) | $ 323 | $ 6 | $ (1,072) |
| | | | | | |
| Net earnings (loss) per common share - basic | $ - | $ (0.01) | $ (0.03) | $ (0.01) | $ (0.01) |
| Non-GAAP net earnings (loss) per common share - basic | $ (0.01) | $ (0.01) | $ 0.01 | $ - | $ (0.03) |
| Basic weighted average number of common shares outstanding | 35,788,199 | 35,716,603 | 35,687,650 | 35,657,519 | 35,586,455 |
| | | | | | |
| Net earnings (loss) per common share - diluted | $ (0.01) | $ (0.01) | $ (0.03) | $ (0.01) | $ (0.01) |
| Non-GAAP net earnings (loss) per common share - diluted | $ (0.01) | $ (0.01) | $ 0.01 | $ - | $ (0.03) |
| Diluted weighted average number of common shares outstanding | 36,427,683 | 35,716,603 | 35,687,650 | 35,657,519 | 35,586,455 |

*See discussion of Non-GAAP financial measures later in this document*

**Discussion of Non-GAAP Financial Measures:**

This press release contains certain non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. Reconciliations between non-GAAP and GAAP measures are set forth below.

The following non-GAAP financial measures are discussed herein: adjusted EBITDA, non-GAAP net income (loss) and non-GAAP net earnings (loss) per common share – basic and diluted. The presentation of these additional financial measures are not intended to be considered in isolation from, or superior to, or as a substitute for the financial measures prepared and presented in accordance with GAAP (Generally Accepted Accounting Principles), including the net income or net loss of USAT or net cash used in operating activities. Management recognizes that non-GAAP financial measures have limitations in that they do not reflect all of the items associated with USAT's net income or net loss as determined in accordance with GAAP. These non-GAAP financial measures are not required by or defined under GAAP and may be materially different from the non-GAAP financial measures used by other companies. USAT has provided below the reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures.

As used herein, non-GAAP net income represents GAAP net income (loss) excluding costs or benefits relating to any adjustment for fair value of warrant liabilities and non-cash portions of the Company’s income tax benefit (provision).

Non-GAAP net earnings (loss) per common share - diluted is calculated by dividing non-GAAP net income (loss) applicable to common shares by the number of diluted weighted average shares outstanding.

Adjusted EBITDA represents net income (loss) before interest income, interest expense, income taxes, depreciation, amortization, and change in fair value of warrant liabilities and stock-based compensation expense. We have excluded the non-operating item, change in fair value of warrant liabilities, because it represents a non-cash gain or (charge) that is not related to USAT's operations. We have excluded the non-cash expense, stock-based compensation, as it does not reflect the cash-based operations of USAT. Adjusted EBITDA is presented because we believe it is useful to investors as a measure of comparative operating performance and liquidity, and because it is less susceptible to variances in actual performance resulting from depreciation and amortization and non-cash charges for changes in fair value of warrant liabilities and stock-based compensation expense.

Management believes that non-GAAP net income (loss) and non-GAAP net earnings (loss) per common share - diluted are important measures of USAT's business. Management uses the aforementioned non-GAAP measures to monitor and evaluate ongoing operating results and trends and to gain an understanding of our comparative operating performance. We believe that these non-GAAP financial measures serve as useful metrics for our management and investors because they enable a better understanding of the long-term performance of our core business and facilitate comparisons of our operating results over multiple periods, and when taken together with the corresponding GAAP financial measures and our reconciliations, enhance investors' overall understanding of our current and future financial performance.

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Source: USA Technologies, Inc.
F-USAT