REGISTRATION NO. 333-_________

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

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

USA TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of incorporation or organization)

7359
(Primary Standard Industrial Classification Code Number)

23-2679963
(I.R.S. Employer Identification Number)

100 Deerfield Lane, Suite 140
Malvern, Pennsylvania 19355
(610) 989-0340
(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

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

Copies to:
Douglas M. Lurio, Esquire
Lurio & Associates, P. C.
One Commerce Square
2005 Market Street, Suite 3320
Philadelphia, PA 19103-7015
(215) 665-9300

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

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: x

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

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

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

CALCULATION OF REGISTRATION FEE

Title of each class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit (1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, no par value	2,142,871 shares (2)	$ 7.00	$ 15,000,097.00	$ 460.49
	160,041 shares (3)	$ 7.00	$ 1,120,287.00	$ 34.39
	44,628 shares (4)	$ 7.00	$ 312,396.00	$ 9.59
	20,580 shares (5)	$ 7.00	$ 144,060.00	$ 4.42
	17,532 shares (6)	$ 7.00	$ 122,724.00	$ 3.77
TOTAL	2,385,652 shares		$ 16,699,564	$ 512.66

(1) Pursuant to Rule 457c, the registration fee has been calculated at the average of the high and low prices reported in the consolidated reporting system within 5 days prior to the date of the filing of the registration statement.

(2) Represents shares issued by us to certain investors pursuant to Securities Purchase Agreements dated October 17, 2007.

(3) Represents shares issued to George R. Jensen, Jr., under the Company’s Long-Term Equity Incentive Program on account of the 2007 fiscal year.

(4) Represents shares issued to Stephen P. Herbert under the Company’s Long-Term Equity Incentive Program on account of the 2007 fiscal year.

(5) Represents shares issued to David M. DeMedio under the Company’s Long-Term Equity Incentive Program on account of the 2007 fiscal year.

(6) Represents shares issuable by us upon the exercise of five-year warrants which were issued to William Blair & Co., LLC as compensation for its services as exclusive placement agent for the placement of the shares sold under the Securities Purchase Agreements referred to in footnote (1).

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

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

PROSPECTUS

USA TECHNOLOGIES, INC.

2,385,652 shares of Common Stock

THE OFFERING

The resale by our selling shareholders of up to 2,385,652 shares of common stock on The NASDAQ Global Market at the prevailing market price or in negotiated transactions. This registration does not mean that the selling shareholders will actually offer or sell any of these shares. We will receive no proceeds from the sale of the shares by the selling shareholders. Because each selling shareholder will offer and sell the shares at various times, we have not included in this prospectus information about the price to the public of the shares or the proceeds to the selling shareholders. We will receive proceeds from the sale of shares issuable by us upon the exercise of warrants by a selling shareholder. Of the shares covered by this prospectus, an aggregate of 17,532 are shares underlying warrants exercisable at $7.70 per share at any time through November 17, 2012.

Our common stock is listed on The NASDAQ Global Market under the symbol “USAT.” On November 6, 2007, the last reported sale price of our common stock was $7.00 per share.

THIS INVESTMENT INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD PURCHASE SHARES ONLY IF YOU CAN AFFORD A COMPLETE LOSS. Please refer to Risk Factors beginning on Page 7.

Simultaneously with this offering, and in addition to the shares offered by the prospectus, certain other selling shareholders are concurrently offering for resale up to 2,570,622 shares through an additional prospectus dated April 12, 2007, and 180,414 shares through an additional prospectus dated June 6, 2007.

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

The date of this prospectus is November 16, 2007.

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PROSPECTUS SUMMARY

OUR COMPANY

USA Technologies, Inc. (the “Company”, “We” and “Our”) was incorporated in the Commonwealth of Pennsylvania in January 1992. The Company offers a suite of networked devices and associated wireless non-cash payment, control/access management, remote monitoring and data reporting services. As a result of the acquisition of the assets of Bayview Technology Group, LLC ("Bayview") in July 2003, our Company also manufactures and sells energy management products which reduce the power consumption of various equipment, such as refrigerated vending machines and glass front coolers, thus reducing the energy costs associated with operating this equipment.

As of September 30, 2007, the Company had approximately 19,000 devices connected to our USALive® network. During the month of October 2007, the Company added approximately 5,000 devices for a total of approximately 24,000 connected devices as of October 30, 2007. During the quarter ended September 30, 2007, the Company processed approximately 1.8 million transactions totaling over $7.3 million.

OUR BUSINESS

Our networked devices and associated services enable the owners and operators of everyday, stand-alone, distributed assets, such as vending machines, personal computers, copiers, faxes, kiosks and laundry equipment, the ability to remotely monitor, control and report on the results of these distributed assets, as well as the ability to offer their customers alternative cashless payment options.

OUR MARKET

Our customers fall into the following categories; vending machine owners and/or operators, business center operators which include hotels and audio visual companies, commercial laundry operators servicing colleges and universities, brand marketers wishing to provide their products or services via kiosks or vending machines and equipment manufacturers such as consumer electronics, appliances, building control systems, factory equipment and computer peripherals that would like to incorporate the technological features of our networked devices (i.e. remote monitoring, reporting and control as well as cashless payments) into their products. Customers for our energy management products also include energy utility companies and operators of glass front coolers.

RESEARCH AND DEVELOPMENT COSTS

Research and development expenses, which are included in general and administrative and compensation expense in the Consolidated Statements of Operations, were approximately $1,355,000, $974,000, and $1,364,000 for the years ended June 30, 2007, 2006 and 2005, respectively, and $405,000 and $305,000 for the three months ended September 30, 2007 and 2006, respectively.

ABOUT OUR OFFERING

Our selling shareholders are, as of the date of this prospectus, as follows:

* the holders of 2,142,871 shares;

* 160,041 shares held by our Chairman and Chief Executive Officer, George R. Jensen, Jr.;

* 44,628 shares held by our President and Chief Operating Officer, Stephen P. Herbert;

* 20,580 shares held by our Chief Financial Officer, David M. DeMedio; and

* the holder of unexercised warrants which, if exercised, would represent 17,532 shares (based upon the price of our shares of $7.00 on November 6, 2007, none of these warrants are in the money).

Based upon the 14,915,557 shares of Common Stock outstanding as of November 2, 2007, and assuming all of the warrants are exercised, we would have 14,933,089 shares outstanding.

The shares covered by this prospectus would be offered by our selling shareholders at the market price at the time of resale. Our selling shareholders may also sell their shares to other investors in transactions not on the open market. There is no requirement that our selling shareholders sell their shares pursuant to this prospectus.

We will not receive any of the proceeds raised by the offering. We will receive proceeds from the exercise of the warrants referred to above.

RISK FACTORS

RISKS RELATING TO OUR BUSINESS

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

We have experienced losses since inception. We expect to continue to incur losses for the foreseeable future as we expend substantial resources on sales, marketing, and research and development of our products. From our inception through September 30, 2007, our cumulative losses from operations are approximately $151 million. For our fiscal years ended June 30, 2007, 2006 and 2005, we have incurred net losses of $17,782,458, $14,847,076 and $15,499,190, respectively, and a net loss of $5,262,989 during the three months ended September 30, 2007. If we continue to incur losses, the price of our common stock can be expected to fall.

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

There is currently limited experience upon which to assume that our business will prove financially profitable or generate sufficient revenues to cover our expenses. From inception, we have generated funds primarily through the sale of securities. Although we believe that we have adequate existing resources to provide for our funding requirements through at least June 30, 2008, there can be no assurances that we will be able to continue to generate sufficient funds thereafter. We expect to raise funds in the future through sales of our debt or equity securities until such time, if ever, as we are able to operate profitably. During the year ended June 30, 2007, cash used in operating activities was approximately $1,140,000 per month. Using the actual cash requirements for the prior fiscal year for estimating cash requirements for the entire year ending June 30, 2008 (which assumes a static level of revenues), cash requirements for fiscal year 2008, including requirements for capital expenditures and repayments of long-term debt, would be approximately $14,600,000. Subsequent to June 30, 2008, our inability to obtain needed funding can be expected to have a material adverse effect on our operations and our ability to achieve profitability. If we fail to generate increased revenues or fail to sell additional securities you may lose all or a substantial portion of your investment.

We may be required to incur further debt to meet future capital requirements of our business. Should we be required to incur additional debt, the restrictions imposed by the terms of our debt could adversely affect our financial condition and our ability to respond to changes in our business.

If we incur additional debt, we may be subject to the following risks:

- our vulnerability to adverse economic conditions and competitive pressures may be heightened;
- our flexibility in planning for, or reacting to, changes in our business and industry may be limited;
- we may be sensitive to fluctuations in interest rates if any of our debt obligations are subject to variable interest rates; and
- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes may be impaired.

We cannot assure you our leverage and such restrictions will not materially and adversely affect our ability to finance our future operations or capital needs or to engage in other business activities. In addition, we cannot assure you additional financing will be available when required or, if available, will be on terms satisfactory to us.

The loss of one or more of our key customers could significantly reduce our revenues and profits.

We have derived, and believe we may continue to derive, a significant portion of our revenues from a limited number of large customers. Approximately 41% and 39% of the Company's accounts and finance receivables at June 30, 2007 and 2006, respectively, were concentrated with two customers each year and 68% as of September 30, 2007 were concentrated with two customers. Approximately 40%, 29% and 11% of the Company's revenues for the year ended June 30, 2007, 2006 and 2005, respectively, were concentrated with one, two and one customer(s), respectively. Approximately, 46% and 24% of the Company’s revenues for the three months ended September 30, 2007 and 2006, respectively, were concentrated with one customer and one customer, respectively. Our customers may buy less of our products or services depending on their own technological developments, end-user demand for our products and internal budget cycles. A major customer in one year may not purchase any of our products or services in another year, which may negatively affect our financial performance. If any of our large customers significantly reduce or delay purchases from us or if we are required to sell products to them at reduced prices or unfavorable terms, our results of operations and revenue could be materially adversely affected.

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

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

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

We have entered into an employment agreement with Mr. Jensen that expires on June 30, 2009. We have also entered into employment agreements with other executive officers, each of which contain confidentiality and non-compete agreements. We have obtained a key man life insurance policy in the amount of $2,000,000 on Mr. Jensen and a key man life insurance policy in the amount of $1,000,000 on our President, Stephen P. Herbert. We do not have and do not intend to obtain key man life insurance coverage on any of our other executive officers. As a result, we are exposed to the costs associated with the death of these key employees.

We also may be unable to retain other existing senior management, sales personnel and development and engineering personnel critical to our ability to execute our business plan, which could result in harm to key customer relationships, loss of key information, expertise or know-how and unanticipated recruitment and training costs.

Our dependence on proprietary technology and limited ability to protect our intellectual property may adversely affect our ability to compete.

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

Through August 31, 2007, we have 19 pending patent applications, and intend to file applications for additional patents covering our future products, although there can be no assurance that we will do so. In addition, there can be no assurance that we will maintain or prosecute these applications. The United States Government and other countries have granted us 66 patents as of August 31, 2007. There can be no assurance that:

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

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

If we are unable to adequately protect our proprietary technology, third parties may be able to compete more effectively against us, which could result in the loss of customers and our business being adversely affected. Patent and proprietary rights litigation entails substantial legal and other costs, and diverts company resources as well as the attention of our management. There can be no assurance we will have the necessary financial resources to appropriately defend or prosecute our rights in connection with any such litigation.

Competition from others with greater resources could prevent the Company from increasing revenue and achieving profitability.

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

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

In addition, it is also possible that a company not currently engaged in any of the businesses described above could develop services and products that compete with our services and products. Competition may result in lower profit margins on our products or may reduce potential profits or result in a loss of some or all of our customer base. To the extent that our competitors are able to offer more attractive technology, our ability to compete could be adversely affected.

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

We depend on arrangements with third parties for a variety of component parts used in our products. We have contracted with various suppliers to assist us to develop and manufacture our e-Port® products and with various suppliers to manufacture our energy miser products. For other components, we do not have supply contracts with any of our third-party suppliers and we purchase components as needed from time to time. We have contracted with IBM and DBSi to host our network in a secure, 24/7 environment to ensure the reliability of our network services. We also have contracted with multiple land-based telecommunications providers to ensure the reliability of our land-based network. If these business relationships are terminated, the implementation of our business plan may be delayed until an alternative supplier or service provider can be retained. If we are unable to find another source or one that is comparable, the content and quality of our products could suffer and our business, operating results and financial condition could be harmed.

A disruption in the manufacturing capabilities of our third-party manufacturers, suppliers or distributors would negatively impact our ability to meet customer requirements.

We depend upon third-party manufacturers, suppliers and distributors to deliver components free from defects, competitive in functionality and cost, and in compliance with our specifications and delivery schedules. Since we generally do not maintain large inventories of our products or components, any termination of, or significant disruption in, our manufacturing capability or our relationship with our third-party manufacturers or suppliers may prevent us from filling customer orders in a timely manner.

We have occasionally experienced, and may in the future experience, delays in delivery of products and delivery of products of inferior quality from third-party manufacturers. Although alternate manufacturers and suppliers are generally available to produce our products and product components, the number of manufacturers or suppliers of some of our products and components is limited, and a qualified replacement manufacturer or supplier could take several months. In addition, our use of third-party manufacturers reduces our direct control over product quality, manufacturing timing, yields and costs. Disruption of the manufacture or supply of our products and components, or a third-party manufacturer's or supplier's failure to remain competitive in functionality, quality or price, could delay or interrupt our ability to manufacture or deliver our products to customers on a timely basis, which would have a material adverse effect on our business and financial performance.

Our reliance on our wireless telecommunication service provider exposes us to a number of risks over which we have no control, including risks with respect to increased prices and termination of essential services.

The operation of our wirelessly networked devices depends upon the capacity, reliability and security of services provided to us by our wireless telecommunication services provider, AT&T Mobility. We have no control over the operation, quality or maintenance of these services or whether the vendor will improve its services or continue to provide services that are essential to our business. In addition, our wireless telecommunication services provider may increase its prices at which it provides services, which would increase our costs. If our wireless telecommunication services provider were to cease to provide essential services or to significantly increase its prices, we could be required to find alternative vendors for these services. With a limited number of vendors, we could experience significant delays in obtaining new or replacement services, which could lead to slowdowns or failures of our network. In addition, we may have to replace our existing e-Port devices that are already installed in the marketplace. This could significantly harm our reputation and could cause us to lose customers and revenues.

Our products may contain defects that may be difficult or even impossible to correct, which could result in lost sales, additional costs and customer erosion.

We offer technically complex products which, when first introduced or released in new versions, may contain software or hardware defects that are difficult to detect and correct. The existence of defects and delays in correcting them could result in negative consequences, including the following:

- delays in shipping products;
- cancellation of orders;
- additional warranty expense;
- delays in the collection of receivables;
- product returns;
- the loss of market acceptance of our products;
- diversion of research and development resources from new product development; and
- inventory write-downs.

Even though we test all of our products, defects may continue to be identified after products are shipped. In past periods, we have experienced various issues in connection with product launches, including the need to rework certain products and stabilize product designs. Correcting defects can be a time-consuming and difficult task. Software errors may take several months to correct, and hardware errors may take even longer.

We may accumulate excess or obsolete inventory that could result in unanticipated price reductions and write downs and adversely affect our financial results.

Managing the proper inventory levels for components and finished products is challenging. In formulating our product offerings, we have focused our efforts on providing our customers products with greater capability and functionality, which requires us to develop and incorporate the most current technologies in our products. This approach tends to increase the risk of obsolescence for products and components we hold in inventory and may compound the difficulties posed by other factors that affect our inventory levels, including the following:

- the need to maintain significant inventory of components that are in limited supply;
- buying components in bulk for the best pricing;
- responding to the unpredictable demand for products;
- responding to customer requests for short lead-time delivery schedules;
- failure of customers to take delivery of ordered products; and
- product returns.

If we accumulate excess or obsolete inventory, price reductions and inventory write-downs may result, which could adversely affect our results of operation and financial condition.

We may not be able to adapt to changing technology and our customers' technology needs.

We face rapidly changing technology and frequent new service offerings by competitors that can render existing services obsolete or unmarketable. Our future depends, in part, on our ability to enhance existing services and to develop, introduce and market, on a timely and cost effective basis, new services that keep pace with technological developments and customer requirements. Developing new products and technologies is a complex, uncertain process requiring innovation and accurate anticipation of technological and market trends. When changes to the product line are announced, we will be challenged to manage possible shortened life cycles for existing products, continue to sell existing products and prevent customers from returning existing products. Our inability to respond effectively to any of these challenges may have a material adverse effect on our business and financial success.

Our products may fail to gain widespread market acceptance. As a result, we may not generate sufficient revenues or profit margins to become successful.

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

Our internal control over financial reporting may not be effective and our independent registered public accounting firm may not be able to certify as to its effectiveness, which could have a significant and adverse effect on our business and reputation.

We are evaluating our internal control over financial reporting in order to allow management to report on, and our independent registered public accounting firm to attest to, our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002 and rules and regulations of the SEC thereunder, which we refer to as Section 404. We are currently performing the system and process evaluation and testing required (and any necessary remediation) in an effort to comply with management certification and auditor attestation requirements of Section 404. At the present time, we anticipate the management certification requirement of Section 404 will initially apply to our Annual Report on Form 10-K for our fiscal year ended June 30, 2008 and the auditor attestation requirement for our fiscal year ended June 30, 2009. However, as we are still in the evaluation process, we may identify conditions that may result in significant deficiencies or material weaknesses in the future. A material weakness is a significant deficiency, as currently defined by the Public Accounting Oversight Board (“PCAOB”), or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Company’s annual or interim financial statements would not be prevented or detected by company personnel in the normal course of performing their assigned functions. Auditing Standard No. 5 was approved by the Securities and Exchange Commission on July 25, 2007 and is effective for audits of internal control over financial reporting required by Section 404(b) of the Sarbanes-Oxley Act of 2002 for fiscal years ending on or after November 15, 2007.

We cannot be certain as to the timing of completion of our evaluation, testing and any remediation actions or the impact of the same on our operations. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, our internal controls would be considered ineffective for purposes of Section 404, our independent auditors may not be able to certify as to the effectiveness of our internal control over financial reporting and we may be subject to sanctions or investigation by regulatory authorities, such as the SEC. As a result, there could be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. In addition, we may be required to incur costs in improving our internal control system and the hiring of additional personnel. Any such action could negatively affect our results.

Security is vital to our customers and therefore breaches in the security of transactions involving our products or services could adversely affect our reputation and results of operations.

Protection against fraud is of key importance to purchasers and end-users of our products. We incorporate security features, such as encryption software and secure hardware, into our products to protect against fraud in electronic payment transactions and to ensure the privacy and integrity of consumer data. Our products may be vulnerable to breaches in security due to defects in the security mechanisms, the operating system and applications or the hardware platform. Security vulnerabilities could jeopardize the security of information transmitted or stored using our products. In general, liability associated with security breaches of a certified electronic payment system belongs to the institution that acquires the financial transaction. In addition, we have not experienced any material security breaches affecting our business. However, if the security of the information in our products is compromised, our reputation and marketplace acceptance of our products will be adversely affected, which would adversely affect our results of operations, and subject us to potential liability.

Credit card issuers have promulgated credit card security guidelines as part of their ongoing efforts to battle identity theft and credit card fraud.

We continue to work with credit card issuers to assure that our products and services comply with these rules. There can be no assurances, however, that our products and services are invulnerable to unauthorized access or hacking. When there is unauthorized access to credit card data that results in financial loss, there is the potential that parties could seek damages from us.

We are subject to laws and regulations that affect the products, services and markets in which we operate. Failure by us to comply with these laws or regulations would have an adverse effect on our business, financial condition, or results of operations.

We are, among other things, subject to banking regulations and credit card association regulations. Failure to comply with these regulations may result in the suspension or revocation of our business, the limitation, suspension or termination of service, and/or the imposition of fines that could have an adverse effect on our financial condition. Additionally, changes to legal rules and regulations, or interpretation or enforcement thereof, could have a negative financial effect on the Company and our product offerings. The payment processing industry may become subject to regulation as a result of recent data security breaches that have exposed consumer data to potential fraud. To the extent this occurs, we could be subject to additional technical, contractual or other requirements as a condition of our continuing to conduct our payment processing business. These requirements could cause us to incur additional costs, which could be significant, or to lose revenues to the extent we do not comply with these requirements.

RISKS RELATED TO OUR COMMON STOCK

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

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

In addition, our articles of incorporation prohibit the declaration of any dividends on the Common Stock unless and until all unpaid and accumulated dividends on the Series A preferred stock have been declared and paid. Through September 30, 2007, the unpaid and cumulative dividends on the series A preferred stock equal $9,383,006. The unpaid and cumulative dividends on the series A preferred stock are convertible into shares of common stock at the rate of $1000 per share at the option of the shareholder. Through September 30, 2007, $2,439,920 of unpaid and cumulative dividends on the Series A Preferred Stock were converted into 1,219 shares of common stock.

Sales of shares eligible for future sale from exercise of warrants and options and our 2006-B Common Stock Agreement could depress the market price of our Common Stock.

As of June 30, 2007, we had issued and outstanding options to purchase 163,000 shares of our common stock, warrants to purchase 1,704,175 shares, and 86,908 shares eligible for sale under our 2006-B Common Stock Agreement with Steve Illes. The shares underlying 117,667 of these options, 870,842 of these warrants, and all of the shares underlying the 2006-B Common Stock Agreement have been registered and may be freely sold upon issuance. Market sales of large amounts of our common stock, or the potential for those sales even if they do not actually occur, may have the effect of depressing the market price of our common stock. In addition, if our future financing needs require us to issue additional shares of common stock or securities convertible into common stock, or the increase of the number of shares eligible for sale to Mr. Illes under our agreements with him, the supply of common stock available for resale could be increased which could stimulate trading activity and cause the market price of our common stock to drop, even if our business is doing well.

The limited prior public market and trading market may cause possible volatility in our stock price.

The overall market for securities in recent years has experienced extreme price and volume fluctuations that have particularly affected the market prices of many smaller companies. The trading price of our Common Stock is expected to be subject to significant fluctuations including, but not limited to, the following:

- quarterly variations in operating results and achievement of key business metrics;

- o changes in earnings estimates by securities analysts, if any;
- o any differences between reported results and securities analysts' published or unpublished expectations;
- o announcements of new contracts or service offerings by us or our competitors;
- o market reaction to any acquisitions, joint ventures or strategic investments announced by us or our competitors;
- o demand for our services and products;
- o shares being sold pursuant to Rule 144 or upon exercise of warrants; and
- o general economic or stock market conditions unrelated to our operating performance.

These fluctuations, as well as general economic and market conditions, may have a material or adverse effect on the market price of our Common Stock.

The substantial market overhang of our shares will tend to depress the market price of our shares.

The substantial number of our shares currently eligible for sale in the open market will tend to depress the market price of our shares. As of September 30, 2007, these shares consisted of the following:

- o 12,544,072 shares of Common Stock
- o 5,203 shares of Preferred Stock issuable upon conversion
- o 9,383 shares issuable upon conversion of the accrued and unpaid dividends on the Series A Preferred Stock
- o 988,134 shares underlying vested Common Stock options and warrants
- o 412,523 shares issuable under the 2006-B Common Stock Agreement with Steve Illes; and
- o 79,987 shares issuable under our 2007-A Stock Compensation Plan.

Director and officer liability is limited.

As permitted by Pennsylvania law, our by-laws limit the liability of our directors for monetary damages for breach of a director's fiduciary duty except for liability in certain instances. As a result of our by-law provisions and Pennsylvania law, shareholders may have limited rights to recover against directors for breach of fiduciary duty. In addition, our by-laws and indemnification agreements entered into by the Company with each of the officers and Directors provide that we shall indemnify our directors and officers to the fullest extent permitted by law.

Our publicly-filed reports are reviewed by the SEC from time to time and any significant changes required as a result of any such review may result in material liability to us, and have a material adverse impact on the trading price of our Common Stock.

The reports of publicly-traded companies are subject to review by the SEC from time to time for the purpose of assisting companies in complying with applicable disclosure requirements and to enhance the overall effectiveness of companies' public filings, and comprehensive reviews of such reports are now required at least every three years under the Sarbanes-Oxley Act of 2002. SEC reviews may be initiated at any time. While we believe that our previously filed SEC reports comply, and we intend that all future reports will comply in all material respects with the published SEC rules and regulations, we could be required to modify or reformulate information contained in prior filings as a result of an SEC review. Any modification or reformulation of information contained in such reports could be significant and result in material liability to us and have a material adverse impact on the trading price of our Common Stock.

USE OF PROCEEDS

We will not receive any of the proceeds from the sales of our Common Stock by the selling shareholders. The selling shareholders entitled to receive the net proceeds from any sales of our common stock are listed on page 68 of this prospectus. We will, however, receive $134,996 of proceeds from the exercise of all of the warrants at the stated exercise price of $7.70 per share (none of which are in the money as of November 6, 2007).

SELECTED FINANCIAL DATA

The following selected financial data for the five years ended June 30, 2007 are derived from the audited consolidated financial statements of USA Technologies, Inc. The financial data for the three months ended September 30, 2007 and 2006 are derived from unaudited consolidated financial statements. The unaudited consolidated financial statements include all adjustments, consisting of normal recurring accruals, which USA Technologies, Inc. considers necessary for a fair presentation of the financial position and the results of operations for these periods. Operating results for the three months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the entire year ending June 30, 2008. The data should be read in conjunction with the consolidated financial statements, related notes, and other financial information.

	Year ended June 30				
	2007	2006	2005	2004	2003
OPERATIONS DATA					
Revenues	$ 9,158,012	$ 6,414,803	$ 4,677,989	$ 5,632,815	$ 2,853,068
Net loss	(17,782,458)	(14,847,076)	(15,499,190)	(21,426,178)	(21,965,499)
Cumulative preferred dividends	(781,451)	(783,289)	(784,113)	(786,513)	(793,586)
Loss applicable to common shares	$ (18,563,909)	(15,630,365)	$ (16,283,303)	$ (22,212,691)	$ (22,759,085)
Loss per common share (basic and diluted)	$ (2.13)	$ (3.15)	$ (4.18)	$ (7.70)	$ (20.36)
Cash dividends per common share	$ --	$ --	$ --	$ --	$ --
BALANCE SHEET DATA					
Total assets	$ 34,491,497	$ 23,419,466	$ 23,391,765	$ 25,880,577	$ 17,892,681
Convertible Senior Notes and other long-term debt	$ 1,029,745	$ 7,780,853	$ 9,337,300	$ 7,273,056	$ 9,213,699
Shareholders' equity	$ 28,084,206	$ 11,177,064	$ 9,309,185	$ 14,108,662	$ 3,692,083

	Three months ended September 30	
	2007	2006
OPERATIONS DATA		
Revenues	$ 3,355,656	$ 2,008,897
Net loss	(5,262,989)	(3,680,314)
Cumulative preferred dividends	(390,294)	(391,157)
Loss applicable to common shares	$ (5,653,283)	$ (4,071,471)
Loss per common share (basic and diluted)	$ (0.47)	$ (0.63)
Cash dividends per common share	$ --	$ --
BALANCE SHEET DATA		
Total assets	$ 33,800,206	$ 21,964,195
Convertible Senior Notes and other long-term debt	$ 1,255,336	$ 7,897,580
Shareholders' equity	$ 25,999,727	$ 9,657,776

QUARTERLY FINANCIAL DATA

Unaudited quarterly results of operations for the years ended June 30, 2007 and 2006 and the three months ended September 30, 2007 follow and should be read in conjunction with the consolidated financial statements, related notes and other financial information and the Company's quarterly reports on Form 10-Q for the fiscal years 2007 and 2006 and the three months ended September 30, 2007.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
YEAR ENDED JUNE 30, 2007					
Revenues	$ 2,008,897	$ 2,011,722	$ 2,690,414	$ 2,446,979	$ 9,158,012
Gross profit	$ 615,536	$ 284,189	$ 317,940	$ 128,568	$ 1,346,233
Net loss	$ (3,680,314)	$ (4,377,088)	$ (4,119,458)	$ (5,605,598)	$ (17,782,458)
Cumulative preferred dividends	$ (391,157)	$ -	$ (390,294)	$ -	$ (781,451)
Loss applicable to common shares	$ (4,071,471)	$ (4,377,088)	$ (4,509,752)	$ (5,605,598)	$ (18,563,909)
Loss per common share (basic and diluted)	$ (0.63)	$ (0.60)	$ (0.45)	$ (0.49)	$ (2.13)
YEAR ENDED JUNE 30, 2006					
Revenues	$ 1,363,886	$ 1,957,753	$ 1,618,776	$ 1,474,388	$ 6,414,803
Gross profit	$ 314,927	$ 787,882	$ 687,749	$ 219,788	$ 2,010,346
Net loss	$ (3,196,872)	$ (2,864,091)	$ (3,313,868)	$ (5,472,245)	$ (14,847,076)
Cumulative preferred dividends	$ (392,057)	$ -	$ (391,232)	$ -	$ (783,289)
Loss applicable to common shares	$ (3,588,929)	$ (2,864,091)	$ (3,705,100)	$ (5,472,245)	$ (15,630,365)
Loss per common share (basic and diluted)	$ (0.90)	$ (0.61)	$ (0.74)	$ (0.96)	$ (3.15)
THREE MONTHS ENDED SEPTEMBER 30, 2007					
Revenues	$ 3,355,656				
Gross profit	$ 519,176				
Net loss	$ (5,262,989)				
Cumulative preferred dividends	$ (390,294)				
Loss applicable to common shares	$ (5,653,283)				
Loss per common share (basic and diluted)	$ (0.47)				

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES

GENERAL

The preparation of 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 the accompanying notes. Actual results could differ from those estimates. We believe the policies and estimates related to revenue recognition, software development costs, impairment of long-lived assets, goodwill and intangible assets, and investments represent our critical accounting policies and estimates. Future results may differ from our 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. License fees for access to the Company's devices and network services are recognized on a monthly basis. Product revenues are recognized for the sale of products from Company owned vending machines when there is purchase and acceptance of product by the vending customer. In all cases, revenue is only recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed and determinable, and collection of the resulting receivable is reasonably assured. The Company estimates an allowance for 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.

During May 2000, the Company reached technological feasibility for the development of the multi-media e-Port(TM) product and related internal network and, accordingly, the Company commenced capitalization of software development costs related to this product and network. Costs capitalized through 2002 were $5.1 million, which included capitalized interest of approximately $493,000 pursuant to SFAS No. 34, "Capitalization of Interest Costs".

During the fourth quarter of fiscal year 2002, the multi-media e-Port(TM) client product and enhanced network became available for general release to the Company's customers. During this quarter, management performed an evaluation of the commercial success and preliminary market acceptance of the multi-media e-Port(TM) and enhanced network and as a result of this evaluation the Company determined that the estimated future revenues less costs to complete and dispose of the multi-media e-Port client product was zero. Therefore, the Company wrote down $2,663,000 of software development costs related to the multi-media e-Port client product. The unamortized balance of the software development costs after the impairment charge was amortized over an estimated useful life of two years and was fully amortized during the year ended June 30, 2004. Accumulated amortization was $5,326,186 at September 30, 2007, and June 30, 2006, 2005, and 2004. Amortization expense was approximately $999,000 during the year ended June 30, 2004. Such amortization is reflected in cost of sales in the accompanying consolidated statements of operations.

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" ("FAS 144"), 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 FAS 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.

During the fourth quarter of fiscal year 2003, the Company reviewed certain long-lived assets (vending machines) and determined that such assets were impaired. These vending machines were used and intended for use in connection with the Company's program with Kodak to sell disposable cameras and film pursuant to the Kodak Vending Placement Agreement. Management determined that it was more likely than not that these vending machines would be disposed of before the end of their previously estimated useful lives. The estimated undiscounted cash flows for this group of assets were less than the carrying value of the related assets. As a result, the Company recorded a charge of approximately $321,000 representing the difference between the fair value as determined from a quoted market price and the carrying value of the group of assets. Effective December 31, 2003, the Kodak agreement was terminated. As a result, the carrying value of the vending machines were further impaired and a charge of approximately $367,000 was recorded as a component of the gain on contract settlement in the June 30, 2004 Consolidated Statement of Operations to reflect these assets at their realizable value. The remaining value of these vending machines was then recorded as assets held for sale in the Consolidated Balance Sheets as of June 30, 2004. During the year ended June 30, 2005, the Company wrote off the remaining value of the vending machines that had not been sold during the year as a loss on contract settlement.

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, "Goodwill and Other Intangible Assets" ("FAS 142"). Under FAS 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. 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. The Company has concluded there has been no impairment of goodwill as a result of its testing on April 1, 2005, April 2006 and April 1, 2007. During the three months ended September 30, 2007, no events or circumstances arose indicating that an impairment of goodwill may have occurred.

Patents, trademarks and the non-compete agreement are carried at cost less accumulated amortization, which is calculated on a straight-line basis over their estimated economic life. The Company reviews intangible for impairment whenever events or changes in circumstances indicate that they carrying amount may not be recoverable. An asset is considered to be impaired when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. The amount of the impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value.

Intangible assets include patents, trademarks and non-compete arrangements purchased in acquisitions. Amortization expense related to these intangible assets was $1,236,600, $1,236,600, and $1,236,600 during the years ended June 30, 2007, 2006, and 2005, respectively, and $309,150 and $309,150 for the three months ended September 30, 2007 and 2006, respectively.

INVESTMENTS

The Company's accounts for investments in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115"). 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 stockholders' equity in 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.).

During the year ended June 30, 2003, the Company issued 150,000 shares of its Common Stock ($2,850,000) for an investment in 1,870,091 shares in the 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 sell a maximum of 10% of the Jubilee shares during each month thereafter. Jubilee 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.

During fiscal year 2004, the Company sold 1,669,091 of the Jubilee shares for net proceeds of $1,471,140 and realized a gain of $603,480, with the cost of the securities calculated by the specific identification method. An unrealized gain of $3,080 and $32,249 on the shares held by the Company was reflected in shareholders' equity as accumulated other comprehensive income at June 30, 2005 and 2004, respectively. During fiscal year 2006, the Company sold the remaining 70,000 shares for net proceeds of $19,243 and realized a loss of $16,087, with the cost of the securities calculated by the specific identification method.

As of September 30, 2007, Available-for-sales securities consisted of auction market securities. There was no unrealized gain(loss) as of September 30, 2007.

FORWARD LOOKING STATEMENTS

This Prospectus contains certain forward looking statements regarding, among other things, the anticipated financial and operating results of the Company. For this purpose, forward looking statements are any statements contained herein that are not statements of historical fact and include, but are not limited to, those preceded by or that include the words, "believes," "expects," "anticipates," or similar expressions. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward looking information is based on various factors and was derived using numerous assumptions. Important factors that could cause the Company's actual results to differ materially from those projected, include, for example (i) the ability of the Company to generate sufficient sales to generate operating profits, or to sell products at a profit, (ii) the ability of the Company to raise funds in the future through sales of securities, (iii) whether the Company is able to enter into binding agreements with third parties to assist in product or network development, (iv) the ability of the Company to commercialize its developmental products, or if actually commercialized, to obtain commercial acceptance thereof, (v) the ability of the Company to compete with its competitors to obtain market share, (vi) the ability of the Company to obtain sufficient funds through operations or otherwise to repay its debt obligations or to fund development and marketing of its products; (vii) the ability of the Company to obtain approval of its pending patent applications, (viii) the ability of the Company to satisfy its trade obligations included in accounts payable and accrued liabilities, (ix) the ability of the Company to predict or estimate its future quarterly or annual revenues given the developing and unpredictable market for its products and the lack of established revenues; (x) the ability of the Company to retain key customers as a significant portion of its revenues is derived from a limited number of key customers; and (xi) the ability of a key customer to reduce or delay purchasing products from the Company. 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

THREE MONTHS ENDED SEPTEMBER 30, 2007

Revenues for the three months ended September 30, 2007 were $3,355,656 compared to $2,008,897 for the corresponding three-month period in the previous fiscal year. This $1,346,759 or 67% increase was primarily due to an increase in equipment sales of approximately $979,000 and license and transaction fees of approximately $367,000. The increase in equipment sales was due to an increase in sales of approximately $1,109,000 in e-Port vending equipment sales, primarily related to the Mastercard PayPass Participation Agreement entered into among the Company, Coca-Cola Enterprises and Mastercard Worldwide ("CCE/MastereCard Agreement"), offset by a decrease of approximately $131,000 in business center sales. The increase in license and transaction fees was due to the increase in the number of e-Port units on our USALive® network, primarily as a result of the CCE/MasterCard Agreement.

In regards to license fees, as of September 30, 2007, the Company had approximately 19,000 devices connected to our USALive® network as compared to approximately 9,000 devices as of September 30, 2006. During the month of October 2007, the Company added approximately 5,000 devices for a total of approximately 24,000 connected devices as of October 30, 2007.

In regards to transaction fees, during the quarter ended September 30, 2007, the Company processed approximately 1.8 million transactions totaling over $7.3 million as compared to approximately 650 thousand transactions totaling over $4.3 million during the quarter ended September 30, 2006, an increase of 177% in transaction volume and 70% in dollars processed.

Cost of equipment for the period was $2,272,492, compared to $1,131,159 for the corresponding period in the prior fiscal year. The increase of $1,141,333 was primarily due to an increase in vending equipment sales relating primarily to our seeding initiative under the CCE/MasterCard Agreement.

Cost of services for the period was $563,988, compared to $262,202 for the corresponding period in the prior fiscal year. The increase of $301,786 was primarily due to the increase in the number of e-Ports connected to our USALive® network relating primarily to our seeding initiative under the CCE/MasterCard Agreement.

Gross profit for the three months ended September 30, 2007 was $519,176, compared to gross profit of $615,536 for the corresponding three-month period in the previous fiscal year. This 16% decrease is primarily due to an increase in sales of our vending products as part of a seeding program. Specifically, we increased the sale of our e-Ports at or near cost pursuant to our seeding program under the CCE/MasterCard Agreement which had the effect of reducing our margins. Product pricing under this program does not reflect the Company's current retail pricing.

Selling, general and administrative expense of $5,392,034 increased by $2,044,978 or 61% primarily due to an increase in compensation expense of approximately $1,757,000 and an increase in consulting and outside service fees of approximately $289,000. The increase in compensation expense is primarily comprised of an increase in salaries expense of approximately $342,000 due to an increase in the number of employees and an increase in bonus expense of approximately $1,403,000 primarily due to non-cash charges from our Long-term Equity Incentive Program. Specifically, the Company recorded $1,170,443 in the three months ended September 30, 2007 attributable to 139,671 of the shares earned by our executive officers under this program on account of the 2007 fiscal year as well as $320,988 attributable to the vesting of shares for the 2008 fiscal year.

Interest expense of $38,396 decreased by $515,969 or 93% due to the repayment of all senior notes during fiscal year 2007.

The quarter ended September 30, 2007 resulted in a net loss of $5,262,989 (approximately $2.1 million of non-cash charges) compared to a net loss of $3,680,314 (approximately $1.0 million of non-cash charges) for the quarter ended September 30, 2006.

THREE MONTHS ENDED SEPTEMBER 30, 2006

Revenues for the three months ended September 30, 2006 were $2,008,897 compared to $1,363,886 for the corresponding three-month period in the previous fiscal year. This $645,011 or 47% increase was primarily due to an increase in equipment sales of approximately $598,000 and license and transaction fees of approximately $47,000. The increase in equipment sales was due to an increase in sales of approximately $150,000 of energy conservation equipment, approximately $56,000 in sales of business centers, and approximately $482,000 in e-Port vending equipment sales, primarily to MasterCard International in connection with the Philadelphia Coke initiative, offset by a decrease of approximately $90,000 in laundry equipment.

Cost of equipment for the period was $1,131,159, compared to $845,372 for the corresponding period in the prior fiscal year.

Cost of services for the period was $262,202, compared to $203,587 for the corresponding period in the prior fiscal year.

Gross profit for the three months ended September 30, 2006 was $615,536, compared to gross profit of $314,927 for the corresponding three-month period in the previous fiscal year. This 95% increase is primarily due to the increased margins on our energy equipment sales due to the reduced costs of producing the equipment overseas.

Selling, general and administrative expense of $3,347,056 increased by $885,957 or 36% primarily due to an increase in compensation expense of approximately $568,000, an increase in legal fees of approximately $134,000, an increase in public relations expenses of approximately $74,000, an increase in product development costs of approximately $56,000 and an increase in consultant costs of approximately $44,000. Compensation expense increased primarily due to an increase in salaries expense of approximately $199,000 due to an increase in the number of employees, an increase in bonus expense of approximately $301,000 due to non-cash charges from common stock and common stock option grants to our executive officers, and an increase in sales commissions of $87,000 due to an increase in equipment sales.

Interest expense of $554,365 decreased by $107,034 or 16% due to a reduction in conversions to senior notes of approximately $197,000 and a reduction in total senior note debt outstanding due to principal repayments.

The quarter ended September 30, 2006 resulted in a net loss of $3,680,314 (approximately $1.0 million of non-cash charges) compared to a net loss of $3,196,872 (approximately $0.7 million of non-cash charges) for the quarter ended September 30, 2005.

FISCAL YEAR ENDED JUNE 30, 2007

Revenues for the fiscal year ended June 30, 2007 were $9,158,012, an increase of $2,743,609 or 43% from the fiscal year ended June 30, 2006. This increase was primarily attributed to increased sales in our vending product lines. Revenues are discussed in more detail as follows:

Equipment sales: Revenues from equipment sales increased to $7,454,076 from $5,198,360 in the prior fiscal year, an increase of $2,256,116 or 43%. This increase was primarily attributed to increased sales in our vending equipment sales ($3,176,000) relating primarily to our seeding initiative with MasterCard Worldwide and other sales offset by decreases in our energy ($625,000), business center ($230,000) and laundry equipment sales ($120,000).

License and transaction fees: Revenues from license and transaction fees increased $487,493 or 40% from $1,216,443 to $1,703,936 for the fiscal years ended June 30, 2006 and 2007, respectively. This increase was primarily due to an increase in license and transaction fees from our Intelligent Vending and eSuds products due to the increased number of devices connected to our USALive® network.

Cost of equipment for the fiscal year ended June 30, 2007 was $6,442,627, compared to $3,549,450 for the fiscal year ended June 30, 2006. The increase of $2,893,177 was primarily due to an increase in vending equipment sales relating primarily to our seeding initiative with MasterCard Worldwide.

Cost of services for the fiscal year ended June 30, 2007 was $1,369,152, compared to $855,007 for the fiscal year ended June 30, 2006. The increase of $514,145 was primarily due to the increase in the number of e-Ports connected to our network relating primarily to our seeding initiative with MasterCard Worldwide.

Gross profit for the fiscal year ended June 30, 2007 was $1,346,233, compared to $2,010,346 for the fiscal year ended June 30, 2006. The decrease of $664,113 was due to an increase in sales of our vending products as part of a seeding program. Specifically, we increased the sale of our e-Ports at or near cost pursuant to our seeding program with MasterCard Worldwide which had the effect of reducing our margins. Product pricing under this program does not reflect the Company's current retail pricing.

Total operating expenses for the fiscal year ended June 30, 2007 was $16,454,809, an increase of $2,662,664 or 19% over the prior fiscal year. The components of operating expenses (general and administrative, compensation, and depreciation and amortization) and the causes of this increase are explained in further detail, below:

Selling, general and administrative expenses increased from $12,092,552 for the fiscal year ended June 30, 2006 to $14,706,156 for the fiscal year ended June 30, 2007, an increase of $2,613,604 or 22%. The increase is due to an increase in compensation expense of approximately $1,956,000, an increase in consulting expenses of approximately $516,000, primarily related to Sarbanes-Oxley implementation costs and the setup of an equipment leasing program, and an increase in legal fees of approximately $290,000 related to intellectual property protection, offset by a reduction in royalty expenses of approximately $150,000 due to the end of the energy management product royalty term agreement. The increase in compensation expense is due to stock bonuses awarded to executive officers through the Long-Term Equity Incentive Program, which resulted in a charge of $599,311, and due to an increase in the number of full-time and part-time employees during the fiscal year.

Total interest expense increased to $2,984,950 for the fiscal year ended June 30, 2007 from $2,878,966 in the prior fiscal year, an increase of $105,984 or 4%. The increase is a result of the repayment of all remaining outstanding Senior Notes, which resulted in expensing all of the remaining unamortized beneficial conversion features for the outstanding Senior Notes.

The fiscal year ended June 30, 2007 resulted in a net loss of $17,782,458 (approximately $5.8 million of non-cash charges) compared to a net loss of $14,847,076 (approximately $4.0 million of non-cash charges) for the prior fiscal year.

FISCAL YEAR ENDED JUNE 30, 2006

Revenues for the fiscal year ended June 30, 2006 were $6,414,803, an increase of $1,736,814 or 37% from the fiscal year ended June 30, 2005. This increase was primarily attributed to increased sales in our energy, vending and laundry product lines. Revenues are discussed in more detail as follows:

Equipment sales: Revenues from equipment sales increased to $5,198,360 from $3,535,064 in the prior fiscal year, an increase of $1,663,296 or 47%. This increase was primarily attributed to increased sales in our energy ($784,000), vending ($497,000) and laundry ($311,000) equipment sales.

License and transaction fees: Revenues from license and transaction fees increased $73,518 or 6% from $1,142,925 to $1,216,443 for the fiscal years ended June 30, 2005 and 2006, respectively. This increase was primarily due to an increase in license and transaction fees from our Intelligent Vending and eSuds products due to the increased number of devices connected to our USALive® network.

Cost of equipment for the fiscal year ended June 30, 2006 was $3,549,450, compared to $2,430,649 for the fiscal year ended June 30, 2005. The increase of $1,118,801 was primarily due to an increase in equipment sales from our energy, vending and laundry products.

Cost of services for the fiscal year ended June 30, 2006 decreased to $193,017 from $1,048,024 to $855,007 for the fiscal years ended June 30, 2005 and 2006, respectively. This decrease was primarily due to a decrease in software development costs.

Gross profit for the fiscal year ended June 30, 2006 was $2,010,346, compared to $1,199,316 for the fiscal year ended June 30, 2005. The increase of $811,030 was due to an increase in sales of our higher margin energy management products.

Total operating expenses for the fiscal year ended June 30, 2006 was $13,792,145, an increase of $202,622 or 2% over the prior fiscal year. The components of operating expenses (General and administrative, Compensation, and Depreciation and amortization) and the causes of this increase are explained in further detail, below:

Selling, general and administrative expenses increased from $11,989,403 for the fiscal year ended June 30, 2005 to $12,092,552 for the fiscal year ended June 30, 2006, an increase of $103,149 or 1%. The increase is primarily due to an increase in compensation expense of approximately $1,332,000 due to stock bonuses and options awarded to executives as well as stock options awarded to members of the board of directors. In addition, the Company increased the number of full-time employees during the fiscal year. This increase was offset by a reduction in consulting services of approximately $918,000 and a reduction in public relations expenses of approximately $204,000.

Depreciation and amortization expense for the fiscal year ended June 30, 2006 was $1,699,593, compared to $1,600,120 for the prior fiscal year, a $99,473 or 6% increase. This increase was attributable to an increased amount of depreciation expense resulting from approximately $842,000 in property, plant and equipment purchases during the fiscal year. The majority of the purchases relate to the purchase and implementation of Oracle’s e-Business Suite, an enterprise management system.

Total interest expense decreased from $3,127,751 to $2,878,966 for the fiscal year ended June 30, 2005 and 2006, respectively, a decrease of $248,785 or 8%. The decrease is a result of a reduction in the number of conversions of Senior Notes into shares of the Company's Common Stock by Senior Note Holders. In the prior fiscal year, these conversions resulted in additional interest expense due to the accelerated amortization of debt discount charged to interest expense at the time of the conversion of the Senior Notes.

For the fiscal year ended June 30, 2006, the Company recorded a contingent loss accrual related to a proposed settlement agreement with Swartz Private Equity, LLC, as more fully described above, resulting in a contingent loss of $270,000. There were no such losses in the prior fiscal year.

The fiscal year ended June 30, 2006 resulted in a net loss of $14,847,076 (approximately $4.0 million of non-cash charges) compared to a net loss of $15,499,190 (approximately $3.6 million of non-cash charges) for the prior fiscal year.

FISCAL YEAR ENDED JUNE 30, 2005

Revenues for the fiscal year ended June 30, 2005 were $4,677,989, a decrease of $954,826 or 17% from the fiscal year ended June 30, 2004. This decrease was primarily attributed to a decrease in sales of our energy management products. Revenues are discussed in more detail as follows:

Equipment sales: Revenues from equipment sales decreased to $3,535,064 from $4,349,566 in the prior fiscal year, a decrease of $814,502 or 19%. This decrease was primarily attributed to a decrease in sales of our energy management products of approximately $1,000,000. This was a result of approximately $686,000 in sales from three large customer orders in the current fiscal year as compared to approximately $1,691,000 in sales from five large customer orders during fiscal year 2004.

License and transaction fees: Revenues from license and transaction fees increased $165,274 or 17% from $977,651 to $1,142,925 for the fiscal years ended June 30, 2004 and 2005, respectively. This increase was primarily due to an increase in license and transaction fees from our Intelligent Vending products, which was offset by the decrease in revenues from the termination of the Kodak Vending Placement Agreement in the prior fiscal year.

Product sales and other: Revenues from product sales and other decreased to $0 from $305,598 in the prior fiscal year. This decrease was due to a decrease in camera and film sales from Company owned vending machines of approximately $105,000 as a result of the termination of the Kodak Vending Placement Agreement and a decrease of $200,000 relating to a one-time payment in the prior fiscal year related to the agreement with Unilever.

Cost of equipment for the fiscal year ended June 30, 2005 was $2,430,649, compared to $2,502,743 for the fiscal year ended June 30, 2004. The decrease of $72,094 was primarily due to a decrease in equipment sales as previously discussed.

Cost of services for the fiscal year ended June 30, 2005 was $1,048,024, compared to $828,289 for the fiscal year ended June 30, 2004. The increase of $219,735 was primarily due to an increase in the number of installed business centers.

Gross profit for the fiscal year ended June 30, 2005 was $1,119,316, compared to $1,303,123 for fiscal year ended June 30, 2004. The decrease of $183,807 was due to a reduction in sales of our higher margin energy management products.

Total operating expenses for the fiscal year ended June 30, 2005 was $13,589,523, a decrease of $5,180,899 or 28% over 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 decrease are explained in further detail, below:

Selling, general and administrative expenses decreased from $16,819,178 for the fiscal year ended June 30, 2004 to $11,989,403 for the fiscal year ended June 30, 2005, a decrease of $4,829,775 or 29%. The decrease is due to a decrease in compensation expense, bad debt expense and consulting fees, which was partially offset by increases in public relations expenses. The decrease in compensation expense of approximately $4,511,000 is primarily due to the one-time issuance of 105,000 shares of Common Stock, valued at $4,620,000, to the Company's Chief Executive Officer in connection with the amendment of his employment agreement in the prior fiscal year. Additionally compensation expense increased by approximately $108,000 related to an increase in medical insurance costs.

Depreciation and amortization expense for the fiscal year ended June 30, 2005 was $1,600,120, compared to $1,632,330 for the prior fiscal year, a $32,210 or 2% decrease. This decrease was attributable to assets becoming fully depreciated during the fiscal year ended June 30, 2005.

During the prior fiscal year, the Company incurred a charge of $318,915 related to the modification of debt terms for certain 2003 and 2004 Senior Notes. This charge represents the unamortized debt discount that remained on the Senior Notes that were scheduled to mature in December 2003 and 2004, and whose terms were substantially modified when the note holders agreed to extend the maturity date of their notes in exchange for a reduction in the conversion rate on the note. There was no such comparable charge in the fiscal year ended June 30, 2005.

During the fiscal year ended June 30, 2004, the Company sold 1,669,091 shares of its investment in the Jubilee Investment Trust for net proceeds of $1,471,140, resulting in a gain of $603,480. There were no sales of such investments during the year ended June 30, 2005.

During the fiscal year ended June 30, 2004, a gain of $429,204 was recorded relating to the termination of the Kodak Vending Placement Agreement. This gain is comprised of the payment from Kodak of approximately $675,000 plus the cancellation of Stitch's obligation to the supplier of the vending machines of approximately $124,000 less a write down of the carrying value of vending machines of approximately $367,000 and a net write-off of amounts due to and from Kodak of $3,000. During the year ended June 30, 2005, the Company wrote off the remaining value of the vending machines that had not been sold during the year as a loss on contract settlement totaling $42,300.

Total interest expense decreased from $5,032,351 to $3,127,751 for the fiscal year ended June 30, 2004 and 2005, respectively, a decrease of $1,904,600 or 38%. The decrease is a result of a reduction in the number of conversions of the Senior Notes into shares of the Company's Common Stock by Senior Note Holders. In the prior fiscal year, these conversions resulted in additional interest expense due to the accelerated amortization of debt discount charged to interest expense at the time of the conversion of the Senior Notes.

The fiscal year ended June 30, 2005 resulted in a net loss of $15,499,190 (approximately $3.6 million of non-cash charges) compared to a net loss of $21,426,178 (approximately $10.9 million of non-cash charges) for the prior fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

For the year ended June 30, 2007, net cash of $13,678,043, was used by operating activities, primarily due to the net loss of $17,782,458 offset by non-cash charges totaling $5,831,362 for transactions involving the issuance of Common Stock for services and legal settlements, stock option compensation charges, depreciation and amortization of assets, amortization of debt discount, and a gain on the repayment of Senior Notes. In addition to these non-cash charges, the Company's net operating assets increased by $1,726,947, primarily due to an increase in both accounts receivables and inventory, partially offset by an increase in accounts payable.

For the year ended June 30, 2007, net cash used in investing activities was $6,876,615, comprised of purchases of property and equipment of $526,615, primarily consisting of our implementation of Oracle's e-Business Suite and software for product development, and the purchase of available-for-sale securities of $7,000,000 offset by the sale of available-for-sale securities of $650,000.

Proceeds from financing activities for the year ended June 30, 2007 provided $22,851,701 of funds, which were necessary to support cash used in operating activities. Net proceeds of $30,989,109 were realized from the issuance of Common Stock and $470,000 of proceeds from a loan agreement. These proceeds were reduced by repayments of long-term debt ($305,732) and Senior Notes less discount ($8,301,676).

For the three months ended September 30, 2007, net cash of $4,938,533 was used by operating activities, primarily due to the net loss of $5,262,989 offset by non-cash charges totaling $2,123,271 for transactions involving the vesting and issuance of Common Stock to employees, transactions involving stock options, bad debt expense, and the depreciation and amortization of assets. In addition to these non-cash charges, the Company's net operating assets increased by $1,798,815 primarily due to increases in accounts and finance receivables, and prepaid expenses and a decrease in accounts payable, offset by a decrease in inventory and an increase in accrued expenses.

Proceeds from financing activities for the three months ended September 30, 2007 provided $3,813,286 of funds, which were necessary to support cash used in operating and investing activities. Net proceeds of $3,651,620 were realized from the issuance of Common Stock and net proceeds of $239,740 were realized from the issuance of long-term debt, offset by cash used to repay long-term debt ($78,074).

The Company has incurred losses since inception. Cumulative losses through September 30, 2007 amounted to approximately $151,000,000. The Company has continued to raise capital through equity offerings to fund operations.

During the year ended June 30, 2007, cash used in operating activities was approximately $1,140,000 per month. Using the prior fiscal year as a basis for estimating cash requirements for the year ending June 30, 2008 (which assumes a static level of revenues), cash requirements for the fiscal year 2008, including requirements for capital expenditures and repayments of long-term debt, would be approximately $14,600,000.

As of September 30, 2007 the Company had approximately $3,943,000 of cash and cash equivalents on hand and $6,350,000 of available-for-sale securities.

From October 1 to November 2, 2007 the Company issued 195,360 shares of Common Stock under the 2006-B Common Stock Agreement for total gross proceeds of $1,222,500. As of November 2, 2007, a total aggregate purchase price of $958,457 is remaining thereunder due to the maximum amount of $15,000,000 that can be purchased under the 2006-B Common Stock Agreement.

As more fully described under Other Events, during October 2007, the Company received gross proceeds of $15,000,097 in connection with a private placement offering of Common Stock to institutional investors.

Funding sources in place to meet the Company's cash requirements for the year ending June 30, 2008 are primarily comprised of approximately $3,943,000 of cash and cash equivalents on hand and $6,350,000 of available-for-sale securities as of September 30, 2007, $958,457 in proceeds that are available under the 2006-B Common Stock Agreements referred to above, the proceeds received by the Company in October 2007 from the private placement offering of Common Stock referred to above, and anticipated proceeds from the future exercises of warrants (1,475,263 of which are currently exercisable and in the money as of the date hereof and could generate proceeds of $9,441,683), for total resources of approximately $35,693,000. Of the foregoing warrants, 833,333 warrants (which are exercisable at $6.40 per share for an aggregate of $5,333,333) can not be exercised by the holder thereof to the extent the exercise would result in the holder thereof being the beneficial owner of more than 9.99% of our shares. The holder of these 833,333 warrants is currently the beneficial owner of approximately 13% of our shares, and therefore these warrants could not be exercised by the holder unless and until its ownership of our shares is reduced. The Company believes these existing sources will provide sufficient funds to meet its cash requirements through at least June 30, 2008.

During the 2008 fiscal year, the Company intends to continue to attempt to improve its business model and financial results. In this regard, we are marketing an e-Port rental program under which our customer would not purchase the unit from us but would pay a higher monthly service fee in order to compensate us for the use of the unit. Under this arrangement, the Company would retain ownership of the unit. Management believes that this rental business model would accelerate the adoption of its e-Port technology. The Company is also considering the possibility of becoming a credit card processor (rather than a merchant as is currently the case). We believe that becoming a credit card processor would enable us to increase our processing revenues and gross profits. Finally, during the first quarter of the 2008 fiscal year, the Company entered into a contract with a manufacturer under which the manufacturer would attempt to produce for us a lower cost e-Port device. If successful, we have committed to purchase at least $3,600,000 of the new e-Port device from this manufacturer over an eighteen month period.

COMMITMENTS

The Company conducts its operations from various facilities under operating leases. In March 2003, the Company entered into a lease for 12,864 square feet of space located in Malvern, Pennsylvania for its principal executive office and used for general administrative functions, sales activities, and product development. The lease term extends through December 31, 2008 and provides for escalating rent payments and a period of free rent prior to the commencement of the monthly lease payment in January 2004 of approximately $25,000 per month. During April 2005, the Company entered into an amendment to the lease covering 4,385 additional square feet that is contiguous to its existing space. The lease term was extended to December 31, 2010, and the amendment provides for a period of free rent for the additional space with rent of approximately $31,000 per month commencing in September 2005 with escalating rental payments thereafter.

The Company also leases 9,084 square feet of space, located in Malvern, Pennsylvania, on a month-to-month basis for a monthly payment of approximately $8,000. During January 2007, the Company entered into an amendment to the lease covering 4,293 additional square feet that is contiguous to its existing space. The lease term was extended to December 31, 2010, and the amendment provides for a rent of $13,377 per month with escalating rental payments through the remainder of the lease. During prior years, the facility was solely used to warehouse product. All product warehousing, shipping and customer support was transferred to this location from the executive office location during the first quarter of fiscal year 2005.

In December 2004, the Company entered into a lease for 2,837 square feet of space located in Denver, Colorado to be used for administrative functions, sales activities and product warehousing associated with our energy management products. The lease term extends through May 31, 2009 and provides for five months of free rent followed by rent payments of $1,200 per month and escalating payments beginning on June 1, 2006. The lease provides for additional rent for a prorated share of operating costs for the entire facility.

OTHER EVENTS

On October 17, 2007, the Company sold 2,142,871 shares of Common Stock for $7.00 per share for an aggregate of $15,000,097 to 37 investors pursuant to a Securities Purchase Agreement entered into with the investors. The offer and sale of the shares was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act. All of these investors are accredited investors. Pursuant to the Registration Rights Agreement entered into between the Company and the investors, we have agreed to register the shares purchased by the investors for resale under the Act through October 17, 2009, and all of these shares are covered by this prospectus. The Registration Rights Agreement provides that if the registration statement is not declared effective by the SEC by January 15, 2008, and provided that the registration statement is not subject to a full review by the SEC, then the Company will pay to the investors as liquidated damages 1% of the purchase price for the shares for each month beyond 90 days that the registration statement is not effective with the maximum damages not to exceed 12% of the purchase price for the shares.

In connection with the above private placement offering, William Blair & Company, LLC, acted as exclusive placement agent. As compensation for its services, Blair received cash compensation of $945,000 and warrants to purchase up to 17,532 shares at $7.70 per share at any time through October 17, 2012. As of the date of this prospectus, none of the warrants have been exercised. Blair also received an expense reimbursement from us of $7,418.44. We have agreed to register the shares underlying the warrants for resale under the Act through October 17, 2009, and these shares are covered by this prospectus. The offer and sale of the warrants was exempt from registration under Section 4(2) of the Act. The investor is an accredited investor. The offer and sale thereof did not involve any general advertising or solicitation and the securities contained appropriate restrictive legends under the Act.

During February 2007, the Company adopted the Long-Term Equity Incentive Program covering the Company's executive officers – Messrs. Jensen, Herbert and DeMedio. Under the Plan, each executive officer will be awarded common stock of the Company in the event the Company achieves target goals relating to each of revenues, gross profit and EBITDA during each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009.

Based upon the audited financial results of the Company for the fiscal year ended June 30, 2007, the target goal (100%) relating to revenues was met and the minimum target goals relating to gross profit and EBITDA were not met. During the fiscal year 2007, substantially all of the e-Port units sold consisted of units pertaining to the MasterCard PayPass seeding program with substantially reduced selling prices which resulted in reduced gross profit and EBITDA. Management's goal was to have the maximum number of units deployed in the field as quickly as possible. During September 2007, the Board of Directors approved the recommendation of the Compensation Committee that the selling price of all the e-Ports sold during the fiscal year be "normalized" to the current retail price. This normalization resulted in increased pro forma revenues, gross profit and EBITDA for the e-Port units sold in the MasterCard PayPass seeding program. The Board of Directors also approved the recommendation of the Compensation Committee that the executive officers be given the option to elect to satisfy certain minimum tax withholding obligations for the restricted stock bonuses previously awarded and issued to the executives under their employment agreements by reducing the number of shares otherwise issuable to them under the Plan.

As a result of the normalization, a higher than target revenue hurdle was met (110%), and lower than target hurdles for each of gross profit (85%) and EBITDA (85%) were also met, resulting in the vesting of a total of 241,249 shares under the Plan for the fiscal year rather than a total of 101,578 shares prior to the normalization. During September 2007, the Company issued 225,249 of such shares to the executives, and at the executives' request, cancelled the remaining 16,000 shares to settle tax withholding obligations incurred in connection with the restricted stock bonuses previously awarded and issued to the executives under their employment agreements. The specific allocation of the 225,249 shares among the executive officers is as follows: Mr. Jensen - 160,041 shares; Mr. Herbert - 44,628 shares; and Mr. DeMedio - 20,580 shares. The offer and sale of these shares was exempt from registration under Section 4(2) of the Act. In October 2007, the Company granted to the executives, standard piggyback registration rights in connection with these shares for a period of five years after vesting. Pursuant thereto, the Company has agreed to include all of these shares in this prospectus.

BUSINESS

OVERVIEW

USA Technologies, Inc. (the "Company", "We" or "Our") was incorporated in the Commonwealth of Pennsylvania in January 1992. The Company is a leading supplier of cashless, remote management, reporting and energy management solutions serving the unattended Point of Sale market. Our networked devices and associated services enable the owners and operators of everyday, stand-alone, distributed assets, such as vending machines, kiosks, personal computers, photocopiers, and laundry equipment, the ability to remotely monitor, control and report on the results of these distributed assets, as well as the ability to offer their customers cashless payment options. As a result of the acquisition of the assets of Bayview Technology Group, LLC ("Bayview") in July 2003, our Company also manufactures and sells energy management products which reduce the electrical power consumption of equipment, such as refrigerated vending machines and glass front coolers, thus reducing the electrical energy costs associated with operating this equipment.

Our customers fall into the following categories: vending machine owners and operators, business center operators which include hotels and audio visual companies, commercial laundry operators servicing colleges and universities, brand marketers wishing to provide their products or services via kiosks or vending machines and equipment manufacturers that would like to incorporate the technological features of our networked devices (i.e. remote monitoring, reporting and control as well as cashless payments) into their products. Customers for our energy management products also include energy utility companies, schools and operators of glass front coolers.

As of September 30, 2007, the Company had approximately 19,000 devices connected to our USALive® network. During the month of October 2007, the Company added approximately 5,000 devices for a total of approximately 24,000 connected devices as of October 30, 2007. During the quarter ended September 30, 2007, the Company processed approximately 1.8 million transactions totaling over $7.3 million.

OUR TECHNOLOGY-BASED SOLUTION

Our Company offers the e-Port Connect™ end-to-end solution for turnkey cashless payment processing, remote management, and on-line reporting for distributed assets such as vending machines, kiosks, office equipment, and laundry machines. The e-Port Connect™ solution consists of a device or software in the distributed asset (the "Client"), a connectivity medium, and our proprietary USALive® network, all coupled with first-class technology support and customer service.

The Client

As part of the end-to-end solution, the Company offers its customers several different Clients to connect their distributed assets. These range from software to hardware devices consisting of control boards, magnetic strip card readers, and RFID readers. The Client can be embedded inside the host equipment, such as software residing in the central processing unit of a Kiosk or Business Center computer; it can be integrated as part of the host equipment, such as our e-Port® hardware that can be attached to the door of a vending machine; or it can be a peripheral, stand-alone terminal, such as our TransAct® terminal for Copier Express®.

e-Port® is the Company's core Client, which is currently being utilized in vending and commercial laundry applications. Our e-Port® product facilitates cashless payments by capturing the payment media and transmitting the information to our network for authorization with the payment authority (e.g. credit card processors). Additional capabilities of our e-Port® consist of control/access management by authorized users, collection of audit information (e.g. product or service sold, date and time of sale and sales amount), diagnostic information of the host equipment, and transmission of this data back to our network for web-based reporting.

TransAct® is the Company's original cashless, transaction-enabling device developed for self-service business center equipment such as PC's, fax machines and copiers. Similar to e-Port®, the TransAct® capabilities include control/access management, collection of sales data (e.g. date and time of sale, sales amount and product or service purchased), and transmission back to our network for reporting to customers.

The Connectivity Mediums

Connectivity of our Clients to the USALive® network is another component of the Company's end-to-end e-Port Connect™ solution. The reliable, cost effective transfer of customer's business critical data is paramount to the services we deliver. Due to the importance of connectivity, and realizing that every customer's connectivity needs may be different (e.g. access, or lack thereof, to phone lines, local area networks ("LANs"), wide area networks ("WANs") and wireless data networks), the Company offers multiple connectivity solutions - phone line, Ethernet and wireless.

Increasing wireless connectivity options, coverage and reliability and decreasing costs, over the past few years have allowed us to service a greater number of customer locations, since many of our customer's host equipment, particularly within the vending industry, do not have access to any other communication medium. Additionally, we make it easy for our customers to deploy wireless solutions by being a single point of contact. By aggregating different wireless networks, we ensure our customers have reliable, cost effective nationwide coverage without the hassles of certification and administration of multiple wireless suppliers.

The Network

USALive® is the network component of our end-to-end solution to which the Company's devices transmit their cashless payment information for processing as well as the valuable sales and diagnostic data for storage and reporting to our customers. Also, the network, through server-based software applications, provides remote management information and enables control of the networked device's functionality.

USALive® is the enabler of turnkey cashless payment processing for our customers. The network is certified with several cashless payment authorities, such as credit card processors and property management systems, facilitating the authorization and settlement of credit cards, debit cards, hotel room keys and student identification cards. The network can also act as its own payment processing authority for other cashless payment media, such as on-line stored value or employee payroll deduction. The network authorizes transactions, occurring at the host equipment, with the appropriate payment authority and sends approval or decline responses back to the networked device to allow or terminate the transaction for the purchase of the product or service. The network consolidates successfully approved transactions from multiple devices, batches, and then transmits these batched transactions to the payment authority for settlement. By bundling and batching transactions from multiple networked devices and connecting to the appropriate payment authorities through one central dedicated processing medium, it reduces the fees charged by the payment authority.

USALive® On-line™ is the web based reporting system that customers use to gain access to the valuable business information collected from the networked devices. The website's functionality includes: management of the distributed assets deployed in the field, such as new activations and location redeployments; user-defined reporting for miscellaneous payment types (e.g. cash, credit, etc), date and time product sold, and sales amount; and detailed bank account deposit information, by device, for easier bank reconciliation. The Company offers this service through either a Company branded website or Customer specific branded website.

OUR PRODUCTS AND SERVICES

Intelligent Vending®

Developed for the vending industry, Intelligent Vending® is our e-Port Connect™ solution for the vending industry. This solution bundles the e-Port® Client, the USALive® network, and our first class technology support and customer service. Our latest improvement to Intelligent Vending® is the introduction of our e-Port® G-6. This hardware includes a radio frequency identification (“RFID”) or “Tap & Go™” tag reader for added convenience to consumers.

Vending operators purchasing our Intelligent Vending® products and services will have the capability to conduct cashless transactions via credit cards, debit cards and other payment mediums such as employee/student ids and hotel room keys; to offer improved and expanded customer services by utilizing 'real-time', web-based reporting to keep machine inventory at a desirable level and consumer access to our 1-800 help-desk center for customer purchasing inquiries, both providing the end-user a more consistent user experience; to reduce operational costs through utilization of our remote monitoring technology, thereby maximizing the scheduling of service visits and limiting 'out-of-stock' machines; and to reduce theft and vandalism by providing 100% accountability of all sales transactions and reducing the cash reserves inside the machine.

e-Suds™

eSuds™ is our e-Port Connect™ solution developed for the commercial laundry industry. The eSuds™ solution bundles the e-Port® Client and the USALive® network, and our first class technology support and customer service. eSuds™ offers an e-mail alert system to notify users regarding machine availability, cycle completion, and other events and supports a variety of value-added services such as custom advertising or subscription-based payments.

Laundry operators purchasing our eSuds™ system will have the capability to conduct cashless transactions via credit cards, debit cards and other payment mediums such as student ids; to reduce operational costs through utilization of our remote monitoring technology, thereby maximizing the scheduling of service visits and increasing machine up-time. The system can also increase customer satisfaction through improved maintenance, higher machine availability, specialized services (i.e. email alerts to indicate that laundry cycle is finished) and the convenience of non-cash transactions. Installations have been completed at Carnegie Mellon University, Rutgers University, Case Western Reserve, John Hopkins University, Temple University and others. We are working with resellers, such as BlackBoard, and distributors, such as Caldwell & Gregory, to install eSuds™ at other colleges and universities based on the positive results of these installations.

Business Express®

Business Express® is our e-Port Connect™ solution comprised of our software Client, the USALive® network and a suite of office equipment (i.e. PC, fax and copier), all coupled with our first class technology support and customer service. Business Express® enables hoteliers and others to offer unmanned business services 24/7/365. The Company also provides additional value-added service and revenue generating opportunities with BEXPrint™, our proprietary technology that allows users, without access to a printer, to send a document to a secure web-site for storage, and then password retrieval of the document for printing at our business center locations, and our Kinko's relationship, which gives our Business Center users access to the nearest, convenient Kinko's center for their more advanced business center needs.

TransAct®, our original payment technology system developed for self-service business center devices, such as fax machines and copiers, is a cashless transaction-enabling terminal that permits customers to use office equipment quickly and simply with the swipe of a major credit card. The TransAct® device can be sold as a stand-alone unit for customers wishing to integrate it with their own office equipment.

Although larger hotels are expected to provide business centers to its guests, operation of the center can be costly. In addition to the cost of operating a supervised business center, operating hours usually are limited due to staff availability. Business Express® provides a cost-effective solution.

Kiosk

We provide an e-Port Connect™ solution that utilizes our e-Port® or software Client, USALive®, and our first class technology support and customer service to offer a cash-free payment option and web-based remote monitoring and management for all kiosk types. Kiosks permit a host of new services to become available at the point-of-demand, such as Sony's self-service, PictureStation kiosks, where consumers can produce prints from their own digital media. Our solution also enables Kiosks to sell a variety of more expensive items.

Energy Management Products

With the acquisition of Bayview in July 2003, our Company offers energy conservation products ("Misers”) that reduce the electrical power consumption of various types of existing equipment, such as vending machines, glass front coolers and other "always-on" appliances by allowing the equipment to selectively operate in a power saving mode when the full power mode is not necessary. Each of the Company's Miser products utilizes occupancy sensing technology to determine when the surrounding area is vacant or occupied. The Miser then utilizes occupancy data, room and product temperatures, and an energy saving algorithm to selectively control certain high-energy components (e.g. compressor and fan) to realize electrical power savings over the long-term use of the equipment. Customers of our VendingMiser® product benefit from reduced energy consumption and costs of up to 46% per machine, depending on regional energy costs, machine type, and utilization of the machine. Our Misers also reduce the overall stress loads on the equipment, helping to reduce associated maintenance costs.

The Miser family of energy-control devices include:

VendingMiser® - installs in a cold drink vending machine and can reduce the electrical power consumption of the vending machine by an average of up to 46%.

CoolerMiser™ - reduces the electrical energy used by sliding glass or pull open glass-front coolers that contain non-perishable goods.

VM2IQ™ and CM2IQ™ - The second generation of the VendingMiser™ and CoolerMiser™ devices that is installed directly inside the machine and has the capability to control the cooling system and the advertising lights separately.

SnackMiser™ - reduces the amount of electricity used by non-refrigerated snack vending machines.

PlugMiser™ - reduces the amount of electricity used by all types of plug loads including those found in personal or modular offices (printers, personal heaters, and radios), video arcade games, and more.

THE OPPORTUNITY

Everyday devices from vending machines to toll booths, refrigerators, security systems, and countless other devices can be better managed by embedding thin-client computing technology with network connectivity into each unit. Using wired and/or wireless networks and centralized, server-based software applications, managers can remotely monitor, control, and optimize a network of devices regardless of where they are located, resulting in a host of benefits including lower maintenance costs, improved inventory and transaction management, and increased operating efficiency.

This market opportunity is known by several different names, including Machine-to-Machine ("M2M") networking, Device Relationship Management ("DRM") and Device Networking. This industry is the convergence of computer-enabled devices and embedded systems, the Internet or other networking mediums, and centralized enterprise data-management tools. By connecting stand-alone devices into large-scale networks, new opportunities emerge between brand marketers, service providers, and their customers. Networked devices enable remote monitoring, cashless transactions, sales analysis, and optimized machine maintenance - all yielding higher return on investment for operators while increasing consumer satisfaction with improved and expanded services.

Brand marketers will be able to provide their products and services to customers wherever and whenever the need arises and capitalize on loyalty rewards programs. They will no longer be limited to existing distribution channels and outlets. Just as beverage vending machines bring bottlers' products beyond the supermarket to the location where and when the customer wants them, a vast range of products and branding opportunities can be made available to customers at the point-of-need. In laundry, makers of detergent and fabric softener can have their products injected directly into a consumer's laundry, again putting their products at the point-of-need.

The market for networked device solutions is projected to be large and growing rapidly and includes a wide variety of segments such as the security and alarm, automated meter reading, fleet and asset management, and consumer telemetry markets. Networked devices will include personal devices (e.g. cell phones, PDAs), vehicles, containers, supply chain assets, medical devices, HVAC units, industrial machinery, home appliances, accelerometers, pressure gauges, flow control indicators, biosensors, and countless other applications. According to an article, "Pervasive Internet", in M2M Magazine (Fall 2003), a minimum of 1.5 billion devices will be connected to the Internet worldwide by 2010. This represents a $700 billion total opportunity including device enabling, monitoring, and providing value-added services made available by the M2M network, according to M2M Magazine.

We believe that an opportunity exists to combine our technology and services with world-class partners in order to deliver a best-in-class solution and emerge as a leader in the Device Networking industry. We are currently focused on becoming a leader in the unattended Point of Sale market. Our Company has begun addressing this opportunity by working in several initial verticals, which include vending, commercial laundry, unattended business centers and unattended kiosks. These services share several key attributes, specifically, they are all unattended, cash-based businesses that are distributed across broad geographic areas. We have the ability to address the extremely broad range of Device Networking opportunities by licensing our technologies to equipment makers throughout a variety of market segments. Equipment makers will be able to merge our turnkey technology-based solutions with their in-depth market expertise.

THE INDUSTRY

Our current customers are primarily in the vending, commercial laundry, business center and kiosk industry sectors. While these industry sectors represent only a small fraction of the total Device Networking market, these are the areas where we have gained the most traction. In addition to being our primary markets, these sectors serve as a proof-of-concept for other Device Networking industry applications.

Vending

Annual worldwide sales in the vending industry sector are estimated to be approximately $143.5 billion, according to Vending Times Census of the Industry 2002. According to this Census, there are an estimated 8 million vending locations in the United States, and 30 million locations worldwide. The market segment that can be addressed by our end-to-end solution consists primarily of vended products retailing for $1 or greater, which represents a Company estimated vended volume of approximately $28 billion. Per census statistics, the overall market growth is 5% to 6% annually, while the addressable market segment for our end-to-end solution is growing more rapidly at 9% annually. Our VendingMiser® energy conservation product can serve the entire vending market.

Commercial Laundry

The domestic commercial laundry industry is estimated to be $5 billion in annual sales and 3.5 million commercial laundry machines in operation, according to Coin Laundry Association, October 2000 edition. The average annual growth rate for the commercial laundry sector is estimated to be between 10% and 12%. The Company believes the inline sale of additives (i.e. push-button selections for detergent and softener) may lead to a significant increase in this figure due to larger net margins over traditional industry standards. The addressable market is primarily the seven largest laundry operators, as well as several other small operators. These operators own and manage the equipment that is installed in multi-housing and college and university locations. The addressable market excludes those who own single laundromats.

Business Centers

There are currently 52,000 hotels in the United States and 300,000 worldwide, per American Hotel & Lodging Association's website, www.ahma.com. There is demand for business center availability in hotels, with ever-greater percentages of travelers needing and expecting use of computers, printers, fax machines, copiers, and other business services. We believe that there are 5,900 hotels in the primary addressable market - business oriented hotels with over 150 rooms - and 13,900 in the secondary market, hotels with 75 to 150 rooms. The growth rate for the overall market is 5% annually, with the addressable market gaining 8% annually.

Kiosk

According to a report by Frost and Sullivan Consulting, Kiosks represent a $500 million market. Kiosks are becoming increasingly popular as self-service "specialty" shops within larger retail environments. Value-added services, such as photo enlargement and custom imaging are a prominent example, located within many major retailers. Since pricing on these products is generally higher than $1 or $2, cashless payment options are essential.

SALES AND MARKETING

The Company's sales strategy includes both direct sales and channel development, depending on the particular dynamics of each of our markets. Our marketing strategy is diversified and includes media relations, direct mail, conferences and client referrals. As of June 30, 2007, the Company was marketing and selling its products through its full time staff consisting of sixteen people.

Direct Sales

We sell directly to the major operators in each of our target markets. Each of our target markets is dominated by a handful of large companies, and these companies comprise our primary customer base. In the vending sector, approximately ten large operators dominate the sector; in the commercial laundry sector, seven operators currently control the majority of the market. We also work directly with hoteliers for our TransAct™ and Business Express® products.

Within the vending industry, our customers include soft drink bottlers and independent vending operators throughout the United States. On the soft drink bottler side, heavy effort is being put into securing initial distribution agreements. Three of the premier national independent vending operators, the Compass Group (Canteen, Flik, Eurest, Restaurant Associates and other affiliates), ARAMARK and Sodexho, have installed approximately 1,120 e-Port® Client devices.

Channel Sales

We currently engage in channel sales for our TransAct™ and Business Express® products. We also work with audio-visual companies that service major hotels.

Marketing

Our marketing strategy consists of building our brand by creating a company and product presence at industry conferences and events, in order to raise visibility within our industry, create opportunity to conduct product demonstrations and consult with potential customers one-on-one; sponsoring of education workshops with trade associations such as National Automated Merchandiser Association ("NAMA"), to educate the industry on the importance and benefits of our solution and establish our position as the industry leader; develop several one-sheet case studies to illustrate the value of our products; the use of direct mail campaigns; advertising in vertically-oriented trade publications such as Vending Times, Automatic Merchandiser and Energy User News; and cultivate a network of State governments and utility companies to provide incentives or underwriting for our energy management products.

STRATEGIC RELATIONSHIPS

Mastercard International

In June 2006, Mastercard International and the Company signed an agreement to deploy 1,000 e-Port devices that accept Mastercard “PayPass™” in Coca-Cola vending machines owned and operated by the Philadelphia Coca-Cola Bottling Company. From July 2006 through June 30, 2007, the Company has earned approximately $400,000 from this agreement.

In November 2006, Mastercard International and the Company signed an agreement to deploy 5,000 e-Port devices that accept Mastercard “PayPass™”. As of June 30, 2007, the Company had earned approximately $1,975,000 from this agreement.

In May 2007, MasterCard International, the Company, and Coca-Cola Enterprises, Inc. entered into an agreement to deploy 7,500 e-Port devices, all as more fully described below. As of October 31, 2007, the Company had earned approximately $3,248,000 from this agreement.

AT&T Mobility (formerly Cingular Wireless and AT&T Wireless)

In July 2004, we signed an agreement to use AT&T's digital wireless wide area network for transport of data, including credit card transactions and inventory management data. AT&T is a provider of advanced wireless voice and data services for consumers and businesses, operating the largest digital wireless network in North America and the fastest nationwide wireless data network in the United States.

Coca-Cola Enterprises, Inc.

In May 2007, we entered into a three year Supply and Licensing Agreement with Coca-Cola Enterprises, Inc. (“CCE”), the world’s largest marketer, producer and distributor of Coca-Cola products. The Agreement covers the purchase by CCE from us of our G6 e-Port® and related e-Port Connect™ services for use in CCE’s beverage vending machines, including the purchase of e-Ports® by CCE under the MasterCard agreement referred to below. The price of each e-Port is $433. We would also receive 5% of the cashless revenues from the CCE vending machine as a processing fee and a monthly payment of $9.95 per unit if we would act as the transaction processor for the CCE vending machine.

The Agreement also includes as an exhibit the MasterCard PayPass Participation Agreement entered into between us, CCE, and MasterCard International Incorporated under which CCE had agreed to use commercially reasonable efforts to complete installation of up to 7,500 e-Ports by August 31, 2007. By amendment executed by the parties to the Agreement, the installation completion date was changed to October 31, 2007. In addition to accepting credit and debit cards, these e-Ports accept payment from credit cards utilizing MasterCard’s PayPass contactless technology. The e-Ports would be utilized in CCE beverage vending machines in multiple cities throughout the United States. For each e-Port successfully installed by CCE, we will receive an aggregate of $433 from CCE and MasterCard. The agreement provides that if all 7,500 e-Ports are not installed by August 31, 2007 (later extended to October 31, 2007), we are required to refund to MasterCard a pro rata share of any payments received from MasterCard that relate to any uninstalled units. CCE is required to pay $433 per unit whether or not they successfully install the e-Ports by October 31, 2007. If all of the 7,500 e-Ports are timely installed, we would receive $3,247,500 for the e-Ports from MasterCard and CCE. However, if the units are not installed by October 31, 2007 and CCE continued to install the e-Ports, CCE would owe the Company $433 per e-Port. As of October 31, 2007, a total of approximately 7,000 units have been installed by CCE.

MANUFACTURING

The Company utilizes independent third party companies for the manufacturing of its products. The Company purchases other components of its business center (computers, printers, fax and copy machines) through various manufacturers and resellers. Our manufacturing process mainly consists of quality assurance of materials and testing of finished goods received from our contract manufacturers. With the exception of a manufacturer of our e-Port product, we have not entered into a long-term contract with our contract manufacturers, nor have we agreed to commit to purchase certain quantities of materials or finished goods beyond those submitted under routine purchase orders, typically covering short-term forecasts.

COMPETITION

The cashless vending, remote business service and energy conservation industries are each highly competitive markets. While the Company offers unique products and services within smaller niche markets of these industries, a number of competitors in the broader market may offer products and services within our niche market in the future. In the cashless vending market, we are aware of one direct competitor, Transaction Network Services, Inc. In the cashless laundry market, we are aware of one direct competitor, Mac-Gray Corporation. In the automated business center market, we are aware of three direct competitors. In the energy management market, we are not aware of any direct competitors for our Miser products.

The businesses which have developed unattended, credit card activated control systems currently in use in non-vending machine applications (e.g., gasoline dispensing, public telephones, prepaid telephone cards and ticket dispensing machines), might be capable of developing products or utilizing their existing products in direct competition with our e-port control systems targeted to the vending industry. The Company is also aware of several businesses that make available use of the Internet and use of personal computers to hotel guests in their hotel rooms. Such services might compete with the Company's Business Express, and the locations may not order the Business Express, or if ordered, the hotel guest may not use it. Finally, the production of highly efficient vending machines and glass front coolers or alternative energy conservation products may reduce or replace the need for our energy management products.

The Company’s key competitive factors include our unique products, our integrated services, product performance and price. Our competitors are well established, have substantially greater resources than the Company and have established reputations for success in the development, sale and service of high quality products. Any increase in competition in the future may result in reduced sales and/or lower percentages of gross revenues being retained by the Company in connection with its licensing arrangements, or otherwise may reduce potential profits or result in a loss of some or all of its customer base.

CUSTOMER CONCENTRATIONS

Approximately 41% and 39% of the Company's accounts and finance receivables at June 30, 2007 and 2006, respectively, were concentrated with two customers each year. Approximately 40%, 29% and 11% of the Company's revenues for the year ended June 30, 2007, 2006 and 2005, respectively, were concentrated with one, two (19% with one customer and 10% with another customer), and one customer(s), respectively. Approximately 46% (unaudited) and 24% (unaudited) of the Company’s revenues for the three months ended September 30, 2007 and 2006, respectively, were concentrated with one customer and one customer. The Company's customers are principally located in the United States.

TRADEMARKS, PROPRIETARY INFORMATION AND PATENTS

The Company received federal registration approval of the following trademarks: Business Express, Express Solutions, C3X, TransAct, Public PC, PC Express, Copy Express, Credit Card Copy Express, Credit Card Computer Express, Credit Card Printer Express, Credit Card Microfiche Express, Credit Card Debit Express, The Office That Never Sleeps, Intelligent Vending, e-Port, Dial-A-Vend, Dial-A-Snack, Dial-A-Vend.com, USALive® and e-Port The Next Generation in Vending. The Company has two trademarks pending registration, VM2IQ and CM2IQ. Through its wholly owned subsidiary, Stitch Networks, the Company has secured three registered trademarks, including eVend.net, eSuds.net, and Stitch Networks, and one trademark, E-ppliance, which is pending registration. In addition, due to the July 2003 acquisition of Bayview, the Company has secured the VendingMiser trademark and the trademark SnackMiser is pending federal registration.

Much of the technology developed or to be developed by the Company is subject to trade secret protection. To reduce the risk of loss of trade secret protection through disclosure, the Company has entered into confidentiality agreements with its key employees. There can be no assurance that the Company will be successful in maintaining such trade secret protection, that they will be recognized as trade secrets by a court of law, or that others will not capitalize on certain aspects of the Company's technology.

Through August 31, 2007, 61 United States patents and 5 Foreign patents have been issued to the Company, 19 United States patents and 8 Foreign patents are pending and 2 patents have received notices of allowance.

The list of issued patents is as follows:

- U.S. Patent No. 5,619,024 entitled "Credit Card and Bank Issued Debit Card Operating System and Method for Controlling and Monitoring Access of Computer and Copy Equipment"; o U.S. Patent No. 5,637,845 entitled "Credit and Bank Issued Debit Card Operating System and Method for Controlling a Prepaid Card Encoding/Dispensing Machine";

- U.S. Patent No. D423,474 entitled "Dataport";

- U.S. Patent No. D415,742 entitled "Laptop Dataport Enclosure";

- U.S. Patent No. D418,878 entitled "Sign Holder";

- U.S. Patent No. 6,056,194 entitled "System and Method for Networking and Controlling Vending Machines";

- U.S. Patent No. D428,047 entitled "Electronic Commerce Terminal Enclosure";

- U.S. Patent No. D428,444 entitled "Electronic Commerce Terminal Enclosure for a Vending Machine";

- U.S. Patent No. 6,119,934 entitled "Credit Card, Smart Card and Bank Issued Debit Card Operated System and Method for Processing Electronic Transactions";

- o U.S. Patent No. 6,152,365 entitled "Credit and Bank Issued Debit Card Operated System and Method for Controlling a Vending Machine";
- o U.S. Patent No. D437,890 entitled "Electronic Commerce Terminal Enclosure with a Hooked Fastening Edge for a Vending Machine";
- o U.S. Patent No. D441,401 entitled "Electronic Commerce Terminal Enclosure with Brackets";
- o U.S. Patent No. 6,321,985 entitled "System and Method for Networking and Controlling Vending Machines";
- o U.S. Patent No. 6,505,095 entitled "System for Providing Remote Audit, Cashless Payment, and Interactive Transaction Capabilities in a Vending Machine" (Stitch);
- o U.S. Patent No. 6,389,337 entitled "Transacting e-commerce and Conducting e-business Related to Identifying and Procuring Automotive Service and Vehicle Replacement Parts" (Stitch);
- o U.S. Patent No. 6,021,626 entitled "Forming, Packaging, Storing, Displaying and Selling Clothing Articles";
- o U.S Patent No. 6,622,124 entitled "Method of transacting an electronic mail, an electronic commerce, and an electronic business transaction by an electronic commerce terminal operated on a transportation vehicle";
- o U.S. Patent No. 6,615,186 entitled "Communicating interactive digital content between vehicles and internet based data processing resources for the purpose of transacting e-commerce or conducting e-business";
- o U.S. Patent No. 6,615,183 entitled "Method of warehousing user data entered at an electronic commerce terminal";
- o U.S. Patent No. 6,611,810 entitled "Store display window connected to an electronic commerce terminal";
- o U.S. Patent No. 6,609,103 entitled "Electronic commerce terminal for facilitating incentive-based purchasing on transportation vehicles";
- o U.S. Patent No. 6,609,102 entitled "Universal interactive advertising and payment system for public access electronic commerce and business related products and services";
- o U.S. Patent No. D478,577 entitled "Transceiver base unit";
- o U.S. Patent No. 6,606,605 entitled "Method to obtain customer specific data for public access electronic commerce services";
- o U.S. Patent No. 6,606,602 entitled "Vending machine control system having access to the internet for the purposes of transacting e-mail, e-commerce, and e-business, and for conducting vending transactions";

- U.S. Patent No. 6,604,087 entitled "Vending access to the internet, business application software, e-commerce, and e-business in a hotel room";
- U.S. Patent No. 6,604,086 entitled "Electronic commerce terminal connected to a vending machine operable as a telephone";
- U.S. Patent No. 6,604,085 entitled "Universal interactive advertising and payment system network for public access electronic commerce and business related products and services";
- U.S. Patent No. 6,601,040 entitled "Electronic commerce terminal for wirelessly communicating to a plurality of communication devices";
- U.S. Patent No. 6,601,039 entitled "Gas pump control system having access to the Internet for the purposes of transacting e-mail, e-commerce, and e-business, and for conducting vending transactions";
- U.S. Patent No. 6,601,038 entitled "Delivery of goods and services resultant from an electronic commerce transaction by way of a pack and ship type company";
- U.S. Patent No. 6,601,037 entitled "System and method of processing credit card, e-commerce, and e-business transactions without the merchant incurring transaction processing fees or charges worldwide";
- U.S. Patent No. D477,030 entitled "Vending machine cashless payment terminal";
- U.S. Patent No. D476,037 entitled "User interface bracket for a point of sale terminal";
- U.S. Patent No. D476,036 entitled "Printer bracket for point of sale terminal";
- U.S. Patent No. D475,751 entitled "User interface bracket for a point of sale terminal";
- U.S. Patent No. D475,750 entitled "Paper guide for a point of sale terminal";
- U.S. Patent No. D475,414 entitled "Printer bracket for point of sale terminal";
- U.S. Patent No. 5,844,808 entitled "Apparatus and methods for monitoring and communicating with a plurality of networked vending machines";
- U.S. Patent No. 6,581,396 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode";
- U.S. Patent No. 6,389,822 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode";
- U.S. Patent No. 6,243,626 entitled "External power management device with current monitoring precluding shutdown during high current"; and

- U.S. Patent No. 5,477,476 entitled "Power conservation system for computer peripherals";
- U.S. Patent No. 6,629,080 entitled "Transaction processing method of fulfilling an electronic commerce transaction by an electronic commerce terminal system";
- U.S. Patent No. D480,948 entitled "Mounting bracket for mounting a cashless payment terminal to a vending machine";
- U.S. Patent No. 6,643,623 entitled "A method of transacting an electronic mail, an electronic commerce, and an electronic business transaction by an electronic commerce terminal using a gas pump";
- U.S. Patent No. 6,684,197 entitled "Method of revaluing a private label card using an electronic commerce terminal (as amended)";
- U.S. Patent No. 6,754,641 entitled "Dynamic identification interchange method for exchanging one form of identification for another";
- U.S. Patent No. 6,763,336 entitled "Method of transacting an e-mail, an e-commerce, and an e-business transaction by an electronic commerce terminal using a wirelessly networked plurality of portable devices";
- U.S. Patent No. 6,801,836 entitled "Power-conservation based on indoor/outdoor and ambient-light determinations";
- U.S. Patent No. 6,807,532 entitled "Method of soliciting a user to input survey data at an electronic commerce terminal";
- U.S. Patent No. 6,853,894 entitled "Global network based vehicle safety and security telematics";
- U.S. Patent No. 6,856,820 entitled "An in-vehicle device for wirelessly connecting a vehicle to the internet and for transacting e-commerce and e-business";
- U.S. Patent No. 6,895,310 entitled "Vehicle related wireless scientific instrumentation telematics";
- U.S. Patent No. 6,898,942 entitled "Method and apparatus for conserving power consumed by a refrigerated appliance";
- U.S. Patent No. 6,931,869 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode";
- U.S. Patent No. 6,975,926 entitled "Method and apparatus for power management control of a compressor-based appliance that reduces electrical power consumption on an appliance";
- U.S. Patent No. 7,003,289 entitled "Communication interface device for managing wireless data transmission between a vehicle and the internet";

- o U.S. Patent No. 7,076,329 entitled "Cashless vending transaction management by a Vend Assist mode of operation";
- o U.S. Patent No. 7,089,209 entitled "Method for revaluing a phone card";
- o U.S. Patent No. 7,131,575 entitled "MDB transaction string effectuated cashless vending";
- o Canadian Patent No. D199-1014 entitled "Sign holder";
- o Canadian Patent No. D199-1038 entitled "Laptop data port enclosure";
- o Canadian Patent No. 2,291,015 entitled "Universal interactive advertising and payment system for public access electronic commerce and business related products and services";
- o Australian Patent No. 2001263356 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode"; and
- o Mexican Patent No. 234363 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode".

The Company believes that one or more of its patents, including the U.S. patent No. 6,505,095 entitled "System for providing remote audit, cashless payment, and interactive transaction capabilities in a vending machine", are important in protecting its intellectual property used in its e-Port® control system targeted to the vending industry. The aforesaid patent expires in July 2021. Reference is hereby made to our risk factors relating to our intellectual property.

The Company has filed for the reexamination of U.S. Patent No. 7,131,575 (reexamination control no. 90/008,437) and for the reexamination of U.S. Patent No. 6,505,095 (reexamination control no. 90/008,448).

RESEARCH AND DEVELOPMENT

Research and development expenses, which are included in general and administrative and compensation expense in the Consolidated Statements of Operations, were approximately $1,355,000, $974,000, and $1,364,000 for the years ended June 30, 2007, 2006 and 2005, respectively, and $405,000 (unaudited) and $303,000 (unaudited) for the three months ended September 30, 2007 and 2006, respectively.

EMPLOYEES

On August 31, 2007, the Company had 70 full-time employees and 13 part-time employees.

PROPERTY

The Company conducts its operations from various facilities under operating leases. In March 2003, the Company entered into a lease for 12,864 square feet of space located in Malvern, Pennsylvania for its principal executive office and used for general administrative functions, sales activities, and product development. The lease term extends through December 31, 2008 and provides for escalating rent payments and a period of free rent prior to the commencement of the monthly lease payment in January 2004 of approximately $25,000 per month. During April 2005, the Company entered into an amendment to the lease covering 4,385 additional square feet that is contiguous to its existing space. The lease term was extended to December 31, 2010, and the amendment provides for a period of free rent for the additional space with rent of approximately $31,000 per month commencing in September 2005 with escalating rental payments thereafter.

The Company also leases 9,084 square feet of space, located in Malvern, Pennsylvania, on a month-to-month basis for a monthly payment of approximately $8,000. During January 2007, the Company entered into an amendment to the lease covering 4,293 additional square feet that is contiguous to its existing space. The lease term was extended to December 31, 2010, and the amendment provides for a rent of $13,377 per month with escalating rental payments through the remainder of the lease. During prior years, the facility was solely used to warehouse product. All product warehousing, shipping and customer support was transferred to this location from the executive office location during the first quarter of fiscal year 2005.

In December 2004, the Company entered into a lease for 2,837 square feet of space located in Denver, Colorado, to be used for administrative functions, sales activities and product warehousing associated with our energy management products. The lease term extends through May 31, 2009 and provides for five months of free rent followed by rent payments of $1,200 per month and escalating payments beginning on June 1, 2006. The lease provides for additional rent for a prorated share of operating costs for the entire facility.

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MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

Our Directors and executive officers, on March 31, 2007, together with their ages and business backgrounds were as follows:

Name	Age	Position(s) Held
George R. Jensen, Jr.	58	Chief Executive Officer, Chairman Of rhe Board of Directors
Stephen P. Herbert	44	Chief Operating Officer and President, Director
David M. DeMedio	36	Chief Financial Officer
William L. Van Alen, Jr. (1)(2)	74	Director
Steven Katz (1)	59	Director
Douglas M. Lurio	50	Director
Joel Brooks (2)	48	Director
Stephen W. McHugh (2)	51	Director

(1) Member of Compensation Committee
(2) Member of Audit Committee

Each Director holds office until the next Annual Meeting of shareholders and until his successor has been elected and qualified.

George R. Jensen, Jr., has been our Chief Executive Officer and a Director since our inception in January 1992. Mr. Jensen was Chairman, Director, and Chief Executive Officer of American Film Technologies, Inc. ("AFT") from 1985 until 1992. AFT was in the business of creating color imaged versions of black-and-white films. From 1979 to 1985, Mr. Jensen was Chief Executive Officer and President of International Film Productions, Inc. Mr. Jensen was the Executive Producer of the twelve hour miniseries, "A.D.", a $35 million dollar production filmed in Tunisia. Procter and Gamble, Inc., the primary source of funds, co-produced and sponsored the epic, which aired in March 1985 for five consecutive nights on the NBC network. Mr. Jensen was also the Executive Producer for the 1983 special for public television, "A Tribute to Princess Grace". From 1971 to 1978, Mr. Jensen was a securities broker, primarily for the firm of Smith Barney, Harris Upham. Mr. Jensen was chosen 1989 Entrepreneur of the Year in the high technology category for the Philadelphia, Pennsylvania area by Ernst & Young LLP and Inc. Magazine. Mr. Jensen received his Bachelor of Science Degree from the University of Tennessee and is a graduate of the Advanced Management Program at the Wharton School of the University of Pennsylvania.

Stephen P. Herbert was elected a Director in April 1996, and joined USA on a full-time basis on May 6, 1996. Prior to joining us and since 1986, Mr. Herbert had been employed by Pepsi-Cola, the beverage division of PepsiCo, Inc. From 1994 to April 1996, Mr. Herbert was a Manager of Market Strategy. In such position he was responsible for directing development of market strategy for the vending channel and subsequently the supermarket channel for Pepsi-Cola in North America. Prior thereto, Mr. Herbert held various sales and management positions with Pepsi-Cola. Mr. Herbert graduated with a Bachelor of Science degree from Louisiana State University.

David M. DeMedio joined USA Technologies on a full-time basis in March 1999 as Controller. In the Summer of 2001, Mr. DeMedio was promoted to Director of Financial Services where he was responsible for the sales and financial data reporting to customers, the Company's turnkey banking services and maintaining and developing relationships with credit card processors and card associations. In July 2003, Mr. DeMedio served as interim Chief Financial Officer through April, 2004. From April, 2004 until April 12, 2005, Mr. DeMedio served as Vice President - Financial & Data Services. On April 12, 2005, he was appointed as the Company's Chief Financial Officer. From 1996 to March 1999, prior to joining the Company, Mr. DeMedio had been employed by Elko, Fischer, Cunnane and Associates, LLC as a supervisor in its' accounting and auditing and consulting practice. Prior thereto, Mr. DeMedio held various accounting positions with Intelligent Electronics, Inc., a multi-billion reseller of computer hardware and configuration services. Mr. DeMedio graduated with a Bachelor of Science in Business Administration from Shippensburg University and is a Certified Public Accountant.

William L. Van Alen, Jr., joined the Board of Directors of USA in May 1993. Mr. Van Alen is President of Cornerstone Entertainment, Inc., an organization engaged in the production of feature films of which he was a founder in 1985. Since 1996 and until March 2006, Mr. Van Alen had been President and a Director of The Noah Fund, a publicly traded mutual fund. Prior to 1985, Mr. Van Alen practiced law in Pennsylvania for twenty-two years. Mr. Van Alen received his undergraduate degree in Economics from the University of Pennsylvania and his law degree from Villanova Law School.

Steven Katz joined the Board of Directors in May 1999. He is President of Steven Katz & Associates, Inc., a management consulting firm specializing in strategic planning and corporate development for technology and service-based companies in the health care, environmental, telecommunications and Internet markets. Mr. Katz`s prior experience includes five years with PriceWaterhouse & Co. in audit, tax and management advisory services; two years of corporate planning with Revlon, Inc.; five years with National Patent Development Corporation (NPDC) in strategic planning, merger and acquisition, technology in-licensing and out-licensing, and corporate turnaround experience as President of three NPDC subsidiaries; and two years as a Vice President and General Manager of a non-banking division of Citicorp, N.A. Mr. Katz is also a Director of Health Systems Solutions Inc., NaturalNano, Inc. and Gammacan International, Inc., all publicly traded companies.

Douglas M. Lurio joined the Board of Directors of USA in June 1999. Mr. Lurio is President of Lurio & Associates, P.C., attorneys-at-law, which he founded in 1991. He specializes in the practice of corporate and securities law. Prior thereto, he was a partner with Dilworth, Paxson LLP. Mr. Lurio received a Bachelor of Arts Degree in Government from Franklin & Marshall College, a Juris Doctor Degree from Villanova Law School, and a Masters in Law (Taxation) from Temple Law School.

Stephen W. McHugh joined the Board of Directors of USA in June 2006. Mr. McHugh was appointed by the Board to fill the vacancy on the Board caused by the death of William W. Sellers. Mr. McHugh is the President and co-founder of Santa Barbara Infrared, Inc., a designer and manufacturer of military and commercial Electro-Optical test equipment that was recently acquired by HEICO Corporation. Mr. McHugh formerly was a mechanical engineer and technical sales expert at Electro Optical Industries where he designed optical and mechanical instruments for the test of infrared camera systems.

Joel Brooks joined the Board of Directors of USA on March 22, 2007. Mr. Brooks was appointed by the Board to fill the vacancy on the Board caused by the resignation of Albert Passner. Since December 2000, Mr. Brooks has served as the Chief Financial Officer and Treasurer of Senesco Technologies, Inc., a biotechnology company whose shares are traded on the American Stock Exchange. From September 1998 until November 2000, Mr. Brooks was the Chief Financial Officer of Blades Board and Skate, LLC, a retail establishment specializing in the action sports industry. Mr. Brooks was Chief Financial Officer from 1997 until 1998 and Controller from 1994 until 1997 of Cable and Company Worldwide, Inc. He also held the position of Controller at USA Detergents, Inc. from 1992 until 1994, and held various positions at several public accounting firms from 1983 through 1992. Mr. Brooks received his Bachelor of Science degree in Commerce with a major in Accounting from Rider University in February 1983.

SUMMARY COMPENSATION TABLE

The following table sets forth certain information with respect to compensation paid or accrued by the Company during the fiscal years ended June 30, 2005, June 30, 2006 and June 30, 2007 to each of the executive officers and employees of the Company named below:

Name and Prinicpal Position (a)	Fiscal Year (b)	Salary ($) (4) (c)	Bonus ($) (5) (d)	Stock Awards ($) (6) (e)	Option Awards ($) (7) (f)	Non-Equity Incentive Plan Compensation ($) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (h)	All Other Compensation ($) (8) (i)	Total ($) (j)
George R. Jensen, Jr.,	2007	$ 325,000	$ -	$ 821,424	$ 137,750	$ -	$ -	$ 17,875	$ 1,302,049
Chief Executive Officer &	2006	$ 270,288	$ -	$ 200,000	$ 137,750	$ -	$ -	$ 18,563	$ 626,601
Chairman of the Board	2005	$ 250,000	$ -	$ -	$ -	$ -	$ -	$ 17,875	$ 267,875
Stephen P. Herbert,	2007	$ 285,000	$ -	$ 393,426	$ 33,060	$ -	$ -	$ 17,875	$ 729,361
Chief Operating Officer &	2006	$ 246,673	$ -	$ 133,336	$ 33,060	$ -	$ -	$ 18,563	$ 431,632
President	2005	$ 231,923	$ -	$ -	$ -	$ -	$ -	$ 17,875	$ 249,798
David M. DeMedio (1),	2007	$ 165,000	$ -	$ 51,124	$ 26,355	$ -	$ -	$ 17,875	$ 260,354
Chief Financial Officer	2006	$ 162,385	$ -	$ -	$ 26,360	$ -	$ -	$ 20,112	$ 208,857
	2005	$ 131,689	$ 11,000	$ -	$ -	$ -	$ -	$ 7,800	$ 150,489
John McLaughlin (2), Vice President of Sales	2007	$ 132,028	$ 46,629	$ 18,821	$ -	$ -	$ -	$ 8,450	$ 205,928
Cary Sagady (3), Vice President, Research & Development	2007	$ 125,400	$ 25,000	$ 27,675	$ -	$ -	$ -	$ 7,800	$ 185,875

(1) Employment as Chief Financial Officer commenced on April 12, 2005.

(2) Employment as Vice President of Sales commenced on August 3, 2004.

(3) Employment as Vice President of Research and Development commenced on January 1, 2006.

(4) Includes Mr. Jensen's election to receive one-half of his base salary in Common Stock during the 2007 fiscal year. As a result, 22,080 restricted shares were issued to Mr. Jensen on June 30, 2006 and recorded at $7.36 per share of Common Stock for a total value of $162,500 during the fiscal year. These shares vested as follows: 5,520 on July 1, 2006; 5,520 on October 1, 2006; 5,520 on January 1, 2007; and 5,520 on April 1, 2007

(5) Consists of cash bonuses awarded upon achievement of performance goals.

(6) Fiscal year 2007 includes 50,000 shares (25,000 vested on January 1, 2007 and 25,000 vested on June 1, 2007) valued at $8.00 per share and 71,428 shares valued at $5.90 per share relating to the Long-Term Equity Incentive Program for Mr. Jensen; 33,333 shares (16,666 vested on January 1, 2007 and 16,666 vested on June 1, 2007) valued at $8.00 and 21,485 shares valued at $5.90 per share relating to the Long-Term Equity Incentive Program for Mr. Herbert; 8,665 shares valued at $5.90 relating to the Long-Term Equity Incentive Program for Mr. DeMedio; 3,150 shares valued at $5.975 per share for Mr. McLaughlin and 4,500 shares valued at $6.15 per share for Mr. Sagady. Fiscal year 2006 includes 25,000 shares that vested on June 1, 2006 valued at $8.00 per share for Mr. Jensen; and 16,667 shares that vested on June 1, 2006 valued at $8.00 per share for Mr. Herbert.

(7) Fiscal year 2007 includes 25,000 options that vested on June 30, 2007 at the fair market value of the grant date of $5.51 for Mr. Jensen; 6,000 options that vested on June 30, 2007 at the fair market value of the grant date of $5.51 for Mr. Herbert; 2,333 options that vested on June 30, 2007 at the fair market value of the grant date of $5.51 and 1,500 options that vested on various dates during the fiscal year at the fair market value of the grant of $9.00 for Mr. DeMedio. Fiscal year 2006 includes 25,000 options that vested on June 30, 2006 at the fair market value of the grant date of $5.51 for Mr. Jensen; 6,000 options that vested on June 30, 2006 at the fair market value of the grant date of $5.51 for Mr. Herbert; 2,334 options that vested on June 30, 2006 at the fair market value of the grant date of $5.51 and 1,500 options that vested on various dates during the fiscal year at the fair market value of the grant of $9.00 for Mr. DeMedio.

(8) Represents cash payments for car allowance payments.

GRANTS OF PLAN-BASED AWARDS TABLE

The table below summarizes the amounts of awards granted to the executive officers under our Long-Term Equity Incentive Program and the shares awarded to the two employees named below during the fiscal year ended June 30, 2007:

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards (1)			All Other Stock Awards: Number of Shares of Stock or	All Other Option Awards: Number of Securities Underlying	Exercise or Base Price of Option	Grant Date Fair Value of Stock and
Name (a)	Grant Date (b)	Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)	Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)	Units (#) (i)	Options (#) (j)	Awards ($) (k)	Option Awards ($) (2) (l)
George R. Jensen, Jr.	02/12/2007	-	-	-	187,500	535,710	669,638	-	-	-	$ 3,950,864
Stephen P. Herbert	02/12/2007	-	-	-	56,400	161,139	201,424	-	-	-	$ 1,194,302
David M. DeMedio	02/12/2007	-	-	-	22,747	64,989	81,236	-	-	-	$ 479,292
John McLaughlin	10/24/2006	-	-	-	-	-	-	3,150	-	$ 5.975	$ 18,821
Cary Sagady	03/08/2007	-	-	-	-	-	-	4,500	-	$ 6.150	$ 27,675

(1) – The amounts in columns (f), (g) and (h) represent the range of equity awards for each named executive officer under the Long-Term Equity Incentive Program issuable over the 2007, 2008 and 2009 fiscal years.

(2) – Amounts represent the grant fair value determined in accordance with SFAS No. 123R.

TOTAL OPTION EXERCISES AND STOCK VESTED

The following table sets forth information regarding options exercised and shares of common stock acquired upon vesting by our named executive officers during fiscal 2007:

	Option Awards		Stock Awards	
Name (a)	Number of Shares Acquired on Exercise (#) (b)	Value Realized on Exercise ($) (c)	Number of Shares Acquired on Vesting (#) (d)	Value Realized on Vesting ($) (1) (e)
George R. Jensen, Jr.	-	$ -	121,428	$ 1,205,351
Stephen P. Herbert	-	$ -	54,817	$ 522,619
David M. DeMedio	-	$ -	8,665	$ 93,149
John McLaughlin	-	$ -	3,150	$ 18,821
Cary Sagady	-	$ -	4,500	$ 27,675

(1) Value equals number of shares multiplied by the market value on vesting date.

OUSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table shows information regarding unexercised stock options and unvested equity awards granted to the executive officers as of the fiscal year ended June 30, 2007:

	Option Awards					Stock Awards			
Name (a)	Number of Securities Underlying Unexercsied Options (#) Exercisable (b)	Number of Securities Underlying Unexercsied Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested ($) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (1) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (j)
George R. Jensen, Jr.,	--	--	--	--	--	--	--	497,140	$ 5,344,255
Chief Executive Officer &	25,000	--	--	$ 7.50	05/10/2011	--	--	--	--
Chairman of the Board	25,000	--	--	$ 7.50	06/28/2012	--	--	--	--
	--	25,000	--	$ 7.50	06/29/2013	--	--	--	--
Stephen P. Herbert,	--	--	--	--	--	--	--	107,427	$ 1,154,840
Chief Operating Officer &	6,000	--	--	$ 7.50	05/10/2011	--	--	--	--
Presdient	6,000	--	--	$ 7.50	06/28/2012	--	--	--	--
	--	6,000	--	$ 7.50	06/29/2013	--	--	--	--
David M. DeMedio,	--	--	--	--	--	--	--	43,327	$ 465,765
Chief Financial Officer	375	--	--	$ 7.50	07/01/2007	--	--	--	--
	375	--	--	$ 7.50	10/31/2007	--	--	--	--
	375	--	--	$ 7.50	01/31/2008	--	--	--	--
	375	--	--	$ 7.50	04/30/2008	--	--	--	--
	375	--	--	$ 7.50	07/31/2008	--	--	--	--
	375	--	--	$ 7.50	10/31/2008	--	--	--	--
	375	--	--	$ 7.50	01/31/2009	--	--	--	--
	375	--	--	$ 7.50	04/30/2009	--	--	--	--
	2,334	--	--	$ 7.50	05/10/2011	--	--	--	--
	2,333	---	--	$ 7.50	06/28/2012	--	--	--	--
	--	2,333	--	$ 7.50	06/29/2013	--	--	--	--

(1) Reflects 357,140 shares issuable to Mr. Jensen under the Long Term Equity Incentive Program on account of fiscal years 2008 and 2009 assuming the target performance goals are attained, and 140,000 shares issuable to Mr. Jensen under his employment agreement upon the occurrence of a USA Transaction. Reflects 107,427 shares issuable to Mr. Herbert and 43,327 shares issuable to Mr. DeMedio on account of fiscal years 2008 and 2009 under the Long Term Equity Incentive Program assuming the target performance goals are attained.

EXECUTIVE EMPLOYMENT AGREEMENTS

On May 11, 2006, the Company and Mr. Jensen entered into an Amended and Restated Employment Agreement pursuant to which the term of Mr. Jensen's employment with the Company was extended to June 30, 2009. Effective May 11, 2006, Mr. Jensen's base salary was increased to $325,000 per annum. The Agreement requires Mr. Jensen to devote his full time and attention to the business and affairs of the Company, and obligates him not to engage in any investments or activities which would compete with the Company during the term of the Agreement and for a period of one year thereafter. Mr. Jensen was granted the right (exercisable at any time prior to the 60th day following the commencement of each fiscal year) to elect to have one-half of his base salary for each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009 paid in shares of Common Stock rather than cash. Mr. Jensen has elected to receive shares in lieu of cash for one-half of his base salary for the fiscal year ending June 30, 2007. As a result of such election, 22,080 shares will be issued to him which will vest as follows: 5,520 on July 1, 2006; 5,520 on October 1, 2006; 5,520 on January 1, 2007; and 5,520 on April 1, 2007. Mr. Jensen was also granted 75,000 shares of Common Stock and an additional amount of options to purchase up to 75,000 shares of Common Stock at $7.50 per share. The 75,000 shares of Common Stock vest as follows: 25,000 on June 1, 2006; 25,000 on January 1, 2007; and 25,000 on June 1, 2007. The options vest as follows: 25,000 on May 11, 2006; 25,000 on June 30, 2007; and 25,000 on June 30, 2008. The options may be exercised at any time within 5 years of vesting. In October 2006, the Company granted to Mr. Jensen piggyback registration rights under the 1933 Act for the shares described above for a period of five years following the vesting of any such shares and the shares underlying any of the options described above for a period of five years following the vesting of any such options.

As previously provided in his employment agreement, upon the occurrence of a "USA Transaction" (as defined below), the Company will issue to Mr. Jensen 140,000 shares of Common Stock subject to adjustment for stock splits or combinations ("Jensen Shares"). Mr. Jensen is not required to pay any additional consideration for the Jensen Shares. At the time of any USA Transaction, all of the Jensen Shares are automatically deemed to be issued and outstanding immediately prior to any USA Transaction, and are entitled to be treated as any other issued and outstanding shares of Common Stock in connection with such USA Transaction.

The term USA Transaction is defined as (i) the acquisition of fifty-one percent or more of the then outstanding voting securities entitled to vote generally in the election of Directors of the Company by any person, entity or group, or (ii) the approval by the shareholders of the Company of a reorganization, merger, consolidation, liquidation, or dissolution of the Company, or the sale, transfer, lease or other disposition of all or substantially all of the assets of the Company. The Jensen Shares are irrevocable and fully vested, have no expiration date, and will not be affected by the termination of Mr. Jensen's employment with the Company for any reason whatsoever.

Pursuant to the Long-Term Equity Incentive Program adopted in February 2007, Mr. Jensen is entitled to earn shares of Common Stock based upon the achievement by the Company of certain target goals relating to revenues, gross profit, and EBITDA (earnings before interest, taxes, depreciation, and amortization) of the Company during each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009. Under the plan, Mr. Jensen is eligible to earn up to 223,213 shares each fiscal year if the maximum target goals are achieved. If a USA Transaction would occur during any such fiscal year, and provided that Mr. Jensen is an employee of the Company on the date of such USA Transaction, Mr. Jensen shall be awarded shares for each of the fiscal years that have not yet been completed as of the date of such USA Transaction. The number of shares shall be 178,570 for each of the uncompleted fiscal years.

On May 11, 2006, the Company and Mr. Herbert entered into an Amended and Restated Employment Agreement pursuant to which the term of Mr. Herbert's employment with the Company was extended to June 30, 2009. Effective May 11, 2006, Mr. Herbert's base salary was increased to $285,000 per annum. The Agreement requires Mr. Herbert to devote his full time and attention to the business and affairs of the Company and obligates him not to engage in any investments or activities which would compete with the Company during the term of the agreement and for a period of one year thereafter. In the event that a USA Transaction (as defined in Mr. Jensen's employment agreement) shall occur, then Mr. Herbert has the right to terminate his agreement upon 30 days notice to USA. Mr. Herbert was granted the right to elect to have one-half of his base salary for each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009 paid in shares of Common Stock rather than cash. Mr. Herbert was also granted 50,000 shares of Common Stock and an additional amount of options to purchase up to 18,000 shares of Common Stock at $7.50 per share. The 50,000 shares of Common Stock vest as follows: 16,667 on June 1, 2006; 16,667 on January 1, 2007; and 16,666 on June 1, 2007. The options vest as follows: 6,000 on May 11, 2006; 6,000 on June 30, 2007; and 6,000 on June 30, 2008. The options may be exercised at any time within 5 years of vesting. In October 2006, the Company granted to Mr. Herbert piggyback registration rights under the 1933 Act for the shares described above for a period of five years following the vesting of any such shares and the shares underlying any of the options described above for a period of five years following the vesting of any such options.

Pursuant to the Long-Term Equity Incentive Program adopted in February 2007, Mr. Herbert is entitled to earn shares of Common Stock based upon the achievement by the Company of certain target goals relating to revenues, gross profit, and EBITDA (earnings before interest, taxes, depreciation, and amortization, and excludes non-cash stock payments/awards and stock options granted to officers and Board Members) of the Company during each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009. Under the plan, Mr. Herbert is eligible to earn up to 67,143 shares each fiscal if the maximum target goals are achieved. If a USA Transaction would occur during any such fiscal year, and provided that Mr. Herbert is an employee of the Company on the date of such USA Transaction, Mr. Herbert shall be awarded shares for each of the fiscal years that have not yet been completed as of the date of such USA Transaction. The number of shares shall be 53,713 for each of the uncompleted fiscal years.

On May 11, 2006, the Company and Mr. DeMedio entered into an amendment to his Employment Agreement pursuant to which the term of Mr. DeMedio's employment with the Company was extended to June 30, 2008. Effective May 11, 2006, Mr. DeMedio's base salary was increased to $165,000 per annum. Mr. DeMedio was granted the right to elect to have one-half of his base salary for each of the fiscal years ending June 30, 2007, and June 30, 2008 paid in shares of Common Stock rather than cash. Mr. DeMedio was also granted options to purchase up to 7,000 shares of Common Stock at $7.50 per share. The options vest as follows: 2,334 on May 11, 2006; 2,333 on June 30, 2007; and 2,333 on June 30, 2008. The options may be exercised at any time within 5 years of vesting. In October 2006, the Company granted to Mr. DeMedio piggyback registration rights under the 1933 Act for the shares underlying any of the options described above for a period of five years following the vesting of any such options. In the event that a USA Transaction (as defined in Mr. Jensen's employment agreement) shall occur, then Mr. DeMedio has the right to terminate his agreement upon 30 days notice to the Company.

Pursuant to the Long-Term Equity Incentive Program adopted in February 2007, Mr. DeMedio is entitled to earn shares of Common Stock based upon the achievement by the Company of certain target goals relating to revenues, gross profit, and EBITDA (earnings before interest, taxes, depreciation, and amortization) of the Company during each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009. Under the plan, Mr. DeMedio is eligible to earn up to 27,080 shares each fiscal year if the maximum target goals are achieved. If a USA Transaction would occur during any such fiscal year, and provided that Mr. DeMedio is an employee of the Company on the date of such USA Transaction, Mr. Demedio shall be awarded shares for each of the fiscal years that have not yet been completed as of the date of such USA Transaction. The number of shares shall be 21,663 for each of the uncompleted fiscal years.

Potential Payments Upon Termination Or Change Of Control

Each of the executive officers' employment agreements provides that upon the occurrence of a USA Transaction, each such executive officer shall be awarded a specified number of shares under the Long-Term Equity Incentive Program for each of the fiscal years that has not been completed as of the date of such USA Transaction provided that each such executive officer is an employee of the Company on the date of the USA Transaction. The term USA Transaction has the same meaning as set forth in Mr. Jensen's employment agreement. In addition, each executive officer's employment agreement provides that upon the executive officer's termination of employment for any reason other than for cause, including death, disability, or voluntary resignation, the executive officer will be eligible to earn shares under the Plan for the fiscal year during which such termination occurred, but will not be eligible to earn shares for any fiscal year following the fiscal year during which the termination occurred.

The following table describes the stock awards issuable by us to each of our executive officers upon the occurrence of a USA Transaction assuming that such USA Transaction occurred on June 30, 2007, when the closing price per share of the Company's Common Stock was $10.75:

Name	Upon Occurrence Of USA Transaction
George R. Jensen, Jr.	$ 5,344,255.00(1)
Stephen P. Herbert	$ 1,154,840.25(2)
David M. DeMedio	$ 465,765.25(3)

(1) Represents (i) 178,570 shares issuable to Mr. Jensen for each of the fiscal years ending June 30, 2008 and June 30 2009 pursuant to the Long-Term Equity Incentive Program; and (ii) 140,000 shares issuable to Mr. Jensen upon the occurrence of a USA Transaction pursuant to the Amended and Restated Employment and Non-competition Agreement executed by the Company and Mr. Jensen on May 11, 2006.

(2) Represents 53,713 shares issuable to Mr. Herbert for the fiscal year 2008, and 53,714 shares issuable for the fiscal year ending June 30, 2009 pursuant to the Company's Long-Term Equity Incentive Program.

(3) Represents 21,663 shares issuable to Mr. DeMedio for the fiscal year 2008, and 21,664 shares issuable for the fiscal year ending June 30, 2009 pursuant to the Company's Long-Term Equity Incentive Program.

COMPENSATION OF DIRECTORS

Members of the Board of Directors receive cash and equity compensation for serving on the Board of Directors, as determined from time to time by the Compensation Committee with subsequent approval thereof by the Board of Directors.

Director Compensation Table

The table below summarizes the compensation paid by the Company to non-employee Directors during the fiscal year ended June 30, 2007.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Compensation Plan ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Joel Brooks (1)	$ 7,500	$ -	$ -	$ -	$ -	$ -	$ 7,500
Steven Katz	$ 35,000	$ -	$ -	$ -	$ -	$ -	$ 35,000
Douglas M. Lurio	$ 20,000	$ -	$ -	$ -	$ -	$ -	$ 20,000
Stephen W. McHugh	$ 30,000	$ -	$ -	$ -	$ -	$ -	$ 30,000
Albert Passner (2)	$ 15,000	$ -	$ -	$ -	$ -	$ -	$ 15,000
William L. Van Alen Jr.	$ 37,500	$ -	$ -	$ -	$ -	$ -	$ 37,500

(1) Appointed a Director on March 22, 2007

(2) Resigned as a Director on March 22, 2007

During fiscal year 2007, we paid each of Messrs. Van Alen, Katz, McHugh and Lurio $20,000 for serving as a Director during the fiscal year. The Company paid Mr. Passner $15,000 for serving as a Director during the first three quarters of the fiscal year. The Company paid Mr. Brooks $5,000 for serving as a Director and $2,500 for serving on the Audit Committee during the fourth quarter of the fiscal year. The Company paid Mr. McHugh $10,000 for serving on the Audit Committee during the fiscal year, Mr. Katz $10,000 for serving on the Compensation Committee and $5,000 for serving on the Audit Committee during the fiscal year and Mr. Van Alen $10,000 for serving on the Compensation Committee and $7,500 for serving on the Audit Committee.

On April 21, 2006, we granted 12,000 Common Stock Options to each of Messrs. Van Alen, Katz, and Lurio all with an exercise price of $7.50 per share and all exercisable at any time within five years following the date of vesting. The options granted to Mr. Van Alen were fully vested. Of the options granted to Mr. Katz and Mr. Lurio, 6,000 vested immediately, 3,000 vested on April 1, 2007, and 3,000 vest on April 1, 2008. In conjunction with the appointment of Stephen McHugh to the Board of Directors on June 20, 2006, the Company granted Mr. McHugh 6,000 Common Stock Options with an exercise price of $8.00 per share. The options vest as follows: 3,000 on June 20, 2007 and 3,000 on June 20, 2008. The options are exercisable at any time within five years of vesting. During the 2007 fiscal year, the Company granted to each Director piggy back registration rights in connection with the shares underlying these options.

PRINCIPAL SHAREHOLDERS

COMMON STOCK

The following table sets forth, as of June 30, 2007, the beneficial ownership of the Common Stock of each of the Company's directors and executive officers, the other employees named in the summary compensation table set forth above, as well as by the Company's directors and executive officers as a group. Except as set forth below, the Company is not aware of any beneficial owner of more than five percent of the Common Stock. Except as otherwise indicated, the Company believes that the beneficial owners of the Common Stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable:

Name and Address of Beneficial Owner(1)	Number of Shares of Common Stock (2)	Percent of Class
George R. Jensen, Jr. 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355	179,290 shares(3)	1.51%
Stephen P. Herbert 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355	75,860 shares(4)	*
David M. DeMedio 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355	9,678 shares(5)	*
Douglas M. Lurio 2005 Market Street, Suite 3320 Philadelphia, Pennsylvania 19103	16,030 shares(6)	*
Steven Katz 440 South Main Street Milltown, New Jersey 08850	15,350 shares(7)	*
William L. Van Alen, Jr. P.O. Box 727 Edgemont, Pennsylvania 19028	56,684 shares(8)	*
Stephen W. McHugh 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355	3,000 shares(9)	*
Joel Brooks 303 George Street Suite 140 New Brunswick, New Jersey 08901	0 shares	*
John McLaughlin 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355	500 shares	*
Cary Sagady 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355	0 shares	*
S.A.C. Capital Advisors, LLC 72 Cummings Point Road Stamford, Connecticut 06902	1,666,667 shares(10)	14.11%
Wellington Management Company, LLP 75 State Street Boston, Massachusetts 02109	942,500 shares(11)	6.88%
All Directors and Executive Officers As a Group (8 persons)	355,892 shares	2.60%

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*Less than one percent (1%)

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and derives from either voting or investment power with respect to securities. Shares of Common Stock issuable upon conversion of the Preferred Stock, shares issuable upon the conversion of Convertible Senior Notes, or shares of Common Stock issuable upon exercise of warrants and options currently exercisable, or exercisable within 60 days of June 30, 2007, are deemed to be beneficially owned for purposes hereof.

(2) On June 30, 2007 there were 11,810,849 shares of Common Stock and 520,392 shares of Preferred Stock issued and outstanding. For purposes of computing the percentages under this table, it is assumed that all shares of issued and outstanding Preferred Stock have been converted into 5,203 shares of Common Stock, and that all of the options to acquire Common Stock which have been issued and are fully vested as of June 30, 2007 (or within 60-days of June 30, 2007) have been converted into 177,808 shares of Common Stock. For purposes of computing such percentages it has also been assumed that all of the remaining Common Stock Warrants have been exercised for 1,704,175 shares of Common Stock; and that all of the accrued and unpaid dividends on the Preferred Stock as of June 30, 2007 have been converted into 8,992 shares of Common Stock. Therefore, 13,707,027 shares of Common Stock were treated as issued and outstanding for purposes of computing the percentages under this table. Does not reflect or include the 140,000 shares issuable to Mr. Jensen upon a “USA Transaction” nor any shares issuable to the executive officers under the Long Term Equity Incentive Program on account of the 2007 fiscal year.

(3) Includes 2,000 shares of Common Stock beneficially owned by his spouse. Does not include the right granted to Mr. Jensen under his Employment Agreement to receive Common Stock upon the occurrence of a USA Transaction nor any shares issuable to the executive officers under the Long Term Equity Incentive Program. See "Executive Employment Agreements". Includes 60,000 shares owned by George R. Jensen, Jr. Grantor Retained Unitrust dated July 14, 2003 over which Mr. Jensen retains beneficial ownership. Includes 50,000 shares underlying vested stock options.

(4) Includes 10 shares of Common Stock beneficially owned by his child and 4,000 shares of Common Stock beneficially owned by his spouse. Includes 12,000 shares underlying vested stock options. Does not include any shares issuable to Mr. Herbert under the Long Term Equity Incentive Program.

(5) Includes 7,667 shares underlying vested stock options. Does not include any shares issuable to Mr. DeMedio under the Long-Term Equity Incentive Program.

(6) Includes 9,000 shares underlying vested stock options.

(7) Includes 9,000 shares underlying vested stock options.

(8) Includes 5,333 shares issuable upon the exercise of warrants and 100 shares of Common Stock beneficially owned by his spouse. Includes 12,000 shares underlying vested stock options.

(9) Includes 3,000 shares underlying vested stock options.

(10) Based upon a Schedule 13G filed with the Securities and Exchange Commission on March 22, 2007, S.A.C. Capital Advisors, LLC, S.A.C. Capital Management, LLC, S.A.C. Capital Associates, LLC, and Steven A. Cohen, each have shared voting and investment power with respect to such shares. The address of SAC Capital Advisors and Mr. Cohen is as indicated in the table. The address of SAC Capital Management is 540 Madison Avenue, New York, New York, 10023. The address of SAC Capital Associates is P.O. Box 58, Victoria House, The Valley, Anguilla, British West Indies. Each of SAC Capital Advisors, SAC Capital Management and Mr. Cohen disclaim beneficial ownership of these shares.

(11) Based upon a Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2007, reflecting the beneficial ownership of our Common Stock by Wellington Management Company, LLP, which has shared voting authority over 484,750 shares and shared dispositive power over 942,500 shares. Does not include 75,000 shares underlying warrants that were not reflected in the Schedule 13G/A.

PREFERRED STOCK

There were no shares of Preferred Stock that were beneficially owned by the Company's directors, executive officers, or the other employees named in the Summary Compensation Table set forth above except for our Director, Mr. William L. Van Alen, Jr., who beneficially owns 4,000 shares of Series A Convertible Preferred Stock.

CERTAIN TRANSACTIONS

During the years ended June 30, 2007, 2006, and 2005, the Company incurred approximately $356,000, $258,000 and $284,000, respectively, in connection with legal services provided by a member of the Company's Board of Directors. At June 30, 2007 and 2006, approximately $33,000 and $28,000, respectively, of the Company's accounts payable and accrued expenses were due to this Board member. During the year ended June 30, 2005, the Company incurred approximately $72,600 in connection with consulting services provided by another member of the Company's Board of Directors. During the years ended June 30, 2007, 2006 and 2005, certain Board members and executives participated in various debt or equity offerings of the Company for total investments of approximately $0, $53,000, and $245,000, respectively.

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SELLING SHAREHOLDERS

Each of the selling shareholders listed below is, as of the date hereof, the holder of our common stock or has the right to acquire the number of shares of common stock set forth opposite such selling shareholder's name. The issuance of the common stock to the selling shareholders, was or will be a transaction exempt from the registration requirements of the Act and various state securities laws. For additional information regarding the issuances of common stock see "Other Events" above. We have agreed, at our expense, to register all of the common stock for resale by the selling shareholders under the Act. We expect to incur expenses of approximately $35,000 in connection with the registration statement of which this prospectus is a part. Except as indicated below, the selling shareholders have not had any material relationship with us within the past three years.

The number of shares that may be actually sold by a selling shareholder will be determined by the selling shareholder. The selling shareholders are under no obligation to sell all or any portion of the shares offered, nor are the selling shareholders obligated to sell such shares immediately under this prospectus. Particular selling shareholders may not have a preset intention of selling their shares and may offer less than the number of shares indicated. Because the selling shareholder may sell all, some or none of the shares of common stock that the selling shareholder holds, no estimate can be given as to the number of shares of our common stock that will be held by the selling shareholder upon termination of the offering. Shares of common stock may be sold from time to time by the selling shareholders or by pledgees, donees, transferees or other successors in interest.

The table below lists the selling shareholders and other information regarding the beneficial ownership of the shares of common stock by the selling shareholders. The second column lists the shares of common stock being offered by this prospectus by each selling shareholder. The third column lists the number of shares of common stock beneficially owned by each selling shareholder, based on his ownership of the shares of common stock, as of the date of this prospectus.

This prospectus covers the resale of 2,385,652 shares. The fourth column assumes the sale of all of the shares offered by the selling shareholders pursuant to this prospectus.

		Beneficial Ownership		
Name of Selling Shareholder	Maximum Number of Shares of Common Stock to be Sold Pursuant to this Prospectus	Before Offering	After Offering	Percentage (13)
SAC Capital Associates, LLC	283,759 (1)	2,854,381	2,570,622	17.21%
SF Capital Partners Ltd.	175,000 (2)	400,000	225,000	1.51%
United Capital Management, Inc.	66,612 (3)	126,612	60,000	
Magnetar SGR Fund, LP	75,000 (4)	75,000	0	
Harbour Holdings Ltd.	150,000 (5)	202,800	52,800	
Skylands Special Investment LLC	65,000 (5)	90,500	22,500	
Skylands Special Investment II LLC	12,000 (5)	15,600	3,600	
Skylands Quest LLC	23,000 (5)	31,100	8,100	
Altairis Investments Limited Partnership	21,900 (6)	21,900	0	
Altairis Offshore	117,300 (6)	117,300	0	
Altairis Offshore Levered	185,800 (6)	185,800	0	
The Robert Wood Johnson Foundation	71,000 (7)	71,000	0	
New York Nurses Association Pension Plan	16,000 (7)	38,500	22,500	
Radian Group Inc.	18,000 (7)	18,000	0	
Wellington Trust Company, National Association Multiple Collective Investment Funds Trust, Emerging Companies Portfolio	176,000 (7)	176,000	0	
British Columbia Investment Management Corporation	37,500 (7)	37,500	0	
Dow Employees' Pension Plan	86,000 (7)	86,000	0	
Wellington Trust Company, National Association Multiple Common Trust Funds Trust, Emerging Companies Portfolio	90,000 (7)	90,000	0	
Public Sector Pension Investment Board	250,000 (7)	361,500	111,500	
Oregon Public Employees Retirement Fund	123,000 (7)	123,000	0	
MFP III	1,316 (8)	11,321	10,005	
Genesee County	5,142 (8)	33,197	28,055	
Milwaukee Jewish Federation of Milwaukee County	1,865 (8)	11,945	10,080	
Paul M. Posner	551 (8)	8,080	7,529	
Lyndhurst Associates	1,226 (8)	13,973	12,747	
Henry Posner III	1,227 (8)	7,886	6,659	
Posner Partners	1,483 (8)	9,528	8,045	
Racine Community Foundation	333 (8)	2,427	2,094	
Florida State Board of Administration	42,395 (8)	270,816	228,423	1.53%
University of Dayton	6,081 (8)	38,787	32,706	
HCA The Healthcare Company	29,526 (8)	109,675	80,153	
Frautschi Small Cap Growth	5,377 (8)	38,713	33,336	
W. Jerome Frautschi Revocable Trust	1,056 (8)	6,804	5,748	
James J. Bakke 1987 Trust	358 (8)	2,315	1,961	
Pleasant T. Rowland Revocable Trust	1,146 (8)	1,146	0	
PTR Foundation	505 (8)	4,528	4,023	
Telex	413 (8)	2,641	2,228	
William Blair & Company, LLC	17,532 (9)	28,986	11,454	
George R. Jensen, Jr.	160,041 (10)	339,331	179,290	1.20%
Stephen P. Herbert	44,628 (11)	120,486	75,860	
David M. DeMedio	20,580 (12)	30,258	9,678	

TOTAL	2,385,652

(1) Represents shares purchased at $7.00 per share issued to the selling shareholder as part of our October 2007 private placement offering.

Pursuant to investment agreements, each of S.A.C. Capital Advisors, LLC, a Delaware limited liability company which we refer to in this prospectus as SAC Capital Advisors, and S.A.C. Capital Management, LLC, a Delaware limited liability company which we refer to in this prospectus as SAC Capital Management, share all investment and voting power with respect to the securities held by S.A.C. Capital Associates, LLC. Mr. Steven A. Cohen controls both SAC Capital Advisors and SAC Capital Management. Each of SAC Capital Advisors, SAC Capital Management and Mr. Cohen disclaim beneficial ownership of these securities.

Simultaneously with this offering, and in addition to the shares offered by this prospectus, the selling shareholder is concurrently offering for resale up to 2,570,622 shares through an additional prospectus dated April 12, 2007.

(2) Represents shares purchased at $7.00 per share issued to the selling shareholder as part of our October 2007 private placement offering.

The natural person who exercises sole and/or shared voting or dispositive powers with respect to the shares and/or warrants held of record by the entity is Brian H. Davidson.

(3) Represents shares purchased at $7.00 per share issued to the selling shareholder as part of our October 2007 private placement offering.

The natural person who exercises sole and/or shared voting or dispositive powers with respect to the shares and/or warrants held of record by the entity is James A. Lustig.

(4) Represents shares purchased at $7.00 per share issued to the selling shareholder as part of our October 2007 private placement offering.

Magnetar Financial LLC is the investment advisor of Magnetar Capital Master Fund, Ltd ("Magnetar Master Fund") and consequently has voting control and investment discretion over securities held by Magnetar Master Fund. Magnetar Financial LLC disclaims beneficial ownership of the shares held by Magnetar Master Fund. Alec Litowitz has voting control over Supernova Management LLC, which is the general partner of Magnetar Capital Partners LP, the sole managing member of Magnetar Financial LLC. As a result, Mr. Litowitz may be considered the beneficial owner of any shares deemed to be beneficially owned by Magnetar Financial LLC. Mr. Litowitz disclaims beneficial ownership of these shares.

(5) Represents shares purchased at $7.00 per share issued to the selling shareholder as part of our October 2007 private placement offering.

The natural person who exercises sole and/or shared voting or dispositive powers with respect to the shares and/or warrants held of record by the entity is Pamela A. Cavanaugh.

(6) Represents shares purchased at $7.00 per share issued to the selling shareholder as part of our October 2007 private placement offering.

Each of these selling shareholders is a client of Polar Securities, Inc., which holds, as an investment advisor, voting and/or dispositive power over the shares held by the selling shareholder and, therefore, is deemed to share beneficial ownership over those shares. The natural person who exercises sole and/or shared voting or dispositive powers with respect to the shares beneficially owned by Polar Securities, Inc., is Bill Peckford.

(7) Represents shares purchased at $7.00 per share issued to the selling shareholder as part of our October 2007 private placement offering.

Each of these selling shareholders is a client of Wellington Management Company, LLP, an investment advisor registered under the Investment Advisors Act of 1940, as amended. Wellington, in such capacity, holds voting and/or dispositive power over the shares held by the selling shareholder and, therefore, is deemed to share beneficial ownership over those shares.

(8) Represents shares purchased at $7.00 per share issued to the selling shareholder as part of our October 2007 private placement offering.

Each of these selling shareholders is a client of Cortina Asset Management LLC, an investment advisor registered under the Investment Advisors Act of 1940, as amended. Cortina, in such capacity, holds voting and/or dispositive power over the shares held by the selling shareholder and, therefore, is deemed to share beneficial ownership over those shares. The natural person who exercises sole and/or shared voting or dispositive powers with respect to the shares beneficially owned by Cortina Asset Management LLC is Joseph A. Frohwa.

(9) Represents shares underlying warrants that were received by the selling shareholder as compensation for acting as the exclusive placement agent in connection with our October 2007 private placement offering. The natural person who exercises sole and/or shared voting or dispositive powers with respect to the shares and/or warrants held of record by the entity is Rob Metzger. The selling shareholder, William Blair & Co., LLC, is a registered broker-dealer under the Securities Exchange Act of 1934. The selling shareholder also acted as our exclusive placement agent in connection with our December 2006 private placement offering.

(10) Represents shares issued to him pursuant to the Company’s Long-Term Equity Incentive Program. Mr. Jensen is our Chairman and Chief Executive Officer.

(11) Represents shares issued to him pursuant to the Company’s Long-Term Equity Incentive Program. Mr. Herbert is our President and Chief Operating Officer.

(12) Represents shares issued to him pursuant to the Company’s Long-Term Equity Incentive Program. Mr. DeMedio is our Chief Financial Officer.

(13) Unless otherwise indicated, each selling shareholder would own less than one percent (1%) of our outstanding shares following the offering.

MARKET FOR COMMON STOCK

The Common Stock of the Company has been trading on The NASDAQ Global Market under the symbol USAT since August 1, 2007. Prior thereto and since March 19, 2007, the Common Stock was traded on The NASDAQ Capital Market. Prior to March 19, 2007, the Common Stock was traded on the OTC Electronic Bulletin Board under the symbol USAT.

The high and low bid prices on the OTC Electronic Bulletin Board, and the high low sales prices on The NASDAQ Global Market and The NASDAQ Capital Market, as the case may be, for the Common Stock were as follows. The quotations on the OTC Electronic Bulletin Board reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Year ended June 30, 2008	High	Low
First Quarter (through September 30, 2007)	$ 10.70	$ 7.65
Year ended June 30, 2007		
First Quarter (through September 30, 2006)	$ 6.30	$ 6.00
Second Quarter (through December 31, 2006)	$ 7.65	$ 4.90
Third Quarter (through March 31, 2007)	$ 9.01	$ 5.50
Fourth Quarter (through June 30, 2007)	$ 12.75	$ 7.71
Year ended June 30, 2006		
First Quarter (through September 30, 2005)	$ 16.80	$ 12.00
Second Quarter (through December 31, 2005)	$ 13.10	$ 8.50
Third Quarter (through March 31, 2006)	$ 14.00	$ 10.10
Fourth Quarter (through June 30, 2006)	$ 8.95	$ 6.50

On August 31, 2007 there were 1,246 record holders of the Common Stock and 494 record holders of the Preferred Stock.

The holders of the Common Stock are entitled to receive such dividends as the Board of Directors of the Company may from time to time declare out of funds legally available for payment of dividends. Through the date hereof, no cash dividends have been declared on the Company's Common Stock or Preferred Stock. No dividend may be paid on the Common Stock until all accumulated and unpaid dividends on the Preferred Stock have been paid. As of September 30, 2007, such accumulated unpaid dividends amounted to $9,383,006.

As of June 30, 2007, equity securities authorized for issuance by the Company with respect to compensation plans were as follows:

Plan category	Number of securities to be issued upon exercises of outstanding options and warrants	Weighted average exercise price of outstanding options and warrants	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders	None	Not applicable	None
Equity compensation plans not approved by security holders	163,000(a)	$ 7.75	1,078,707(b)

a) Represents stock options outstanding as of June 30, 2007 for the purchase of shares of Common Stock of the Company expiring at various times from July 2007 through June 2013. All such options were granted to employees and directors of the Company. Exercise prices for all the options outstanding were at prices that were either equal to or greater than the market price of the Company's Common Stock on the dates the options were granted.

b) Represents 140,000 shares of Common Stock issuable to the Company's Chief Executive Officer under the terms of his employment agreement plus 87,987 shares of Common Stock issuable under the Company's 2007-A Stock Compensation Plan and 850,720 shares of Common Stock issuable under the Long-Term Equity Incentive Program adopted in February 2007.

In July 2003 the Company and the Company's Chief Executive Officer (CEO) amended the terms of his employment agreement. 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, eliminated the seven percent (non-dilutive) right to receive Common Stock upon a "USA Transaction", and granted the CEO an aggregate of 140,000 shares of Common Stock in the event a "USA Transaction" occurs. In exchange for the amendment of these terms, the Company issued an aggregate of 105,000 shares of its Common Stock to the CEO. In connection with this amendment, the CEO also entered into a lock-up agreement pursuant to which he shall not sell 25,000 of these shares for a one-year period and 80,000 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 140,000 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. The right to receive the shares is irrevocable and fully vested, and the rights have no expiration date and will not be affected by the termination of the CEO’s employment with the Company for any reason whatsoever.

The Company's Board of Directors established and authorized the 2007-A Stock Compensation Plan in February 2007 for use in compensating employees, directors and consultants through the issuance of shares of Common Stock of the Company. There were 100,000 shares authorized under the Plan. The underlying shares for the Plan have been registered with the Securities and Exchange Commission as an employee benefit plan under Form S-8. As of June 30, 2007 there were 87,987 shares available for future issuance under the Plan.

As of September 30, 2007, shares of Common Stock reserved for future issuance were as follows:

- 162,625 shares issuable upon the exercise of stock options at exercise prices ranging from $7.50 to $20 per share

- 1,678,186 shares issuable upon the exercise of common stock warrants at exercise prices ranging from $6.40 to $20 per share

- o 14,586 shares issuable upon the conversion of outstanding Preferred Stock and cumulative Preferred Stock dividends
- o 412,523 shares issuable to an accredited investor under the 2006-B Common Stock Agreement
- o 672,958 shares issuable under the Long-Term Equity Incentive Program adopted in February 2007
- o 79,987 shares issuable the 2007-A Stock Compensation Plan; and
- o 140,000 shares issuable to Mr. Jensen under his employment agreement upon the occurrence of a USA Transaction.

PLAN OF DISTRIBUTION

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

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

The selling shareholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Act in connection with such sales. In such event, any commissions received by such broker-dealers and profit on the resale of the shares purchased by them may be deemed to be underwriting discounts under the Act.

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

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

DESCRIPTION OF SECURITIES

GENERAL

We are authorized to issue up to 640,000,000 shares of common stock, no par value, and 1,800,000 shares of undesignated preferred stock. As of the date hereof, 900,000 preferred shares have been designated as series A convertible preferred stock, no par value. As of September 30, 2007, there were 12,544,072 shares of common stock issued and outstanding and 520,392 shares of series A preferred stock issued and outstanding which are convertible into 5,203 shares of common stock. Through September 30, 2007, a total of 590,758 shares of preferred stock have been converted into 6,671 shares of Common Stock and $2,718,764 of accrued and unpaid dividends thereon have been converted into 2,919 shares of Common Stock.

COMMON STOCK

The holder of each share of common stock:

§ is entitled to one vote on all matters submitted to a vote of the shareholders of USA, including the election of directors. There is no cumulative voting for directors;

§ does not have any preemptive rights to subscribe for or purchase shares, obligations, warrants, or other securities of USA; and

§ is entitled to receive such dividends as the Board of Directors may from time to time declare out of funds legally available for payment of dividends.

No dividend may be paid on the common stock until all accumulated and unpaid dividends on the series A preferred stock have been paid. Upon any liquidation, dissolution or winding up of USA, holders of shares of common stock are entitled to receive pro rata all of the assets of USA available for distribution, subject to the liquidation preference of the series A preferred stock of $10 per share and any unpaid and accumulated dividends on the series A preferred stock.

SERIES A CONVERTIBLE PREFERRED STOCK

The holders of shares of Series A preferred stock:

§ have the number of votes per share equal to the number of shares of common stock into which each such share is convertible (i.e., 100 shares of series A preferred stock equals 1 vote);

§ are entitled to vote on all matters submitted to the vote of the shareholders of USA, including the election of directors; and

§ are entitled to an annual cumulative cash dividend of $1.50 per annum, payable when, as and if declared by the Board of Directors.

The record dates for payment of dividends on the Series A Preferred Stock are February 1 ($0.75) and August 1 ($0.75) of each year. Any and all accumulated and unpaid cash dividends on the Series A Preferred Stock must be declared and paid prior to the declaration and payment of any dividends on the Common Stock. Any unpaid and accumulated dividends will not bear interest. As of September 30, 2007, such accumulated unpaid dividends amounted to $9,383,006.

Each share of Series A Preferred Stock is convertible at any time into 1/100th of a share of fully issued and non-assessable Common Stock. Accrued and unpaid dividends earned on shares of Series A Preferred Stock being converted into Common Stock are also convertible into Common Stock at the rate $1,000 per share of Common Stock at the time of conversion and whether or not such dividends have then been declared by USA. As of September 30, 2007, a total of 590,758 shares of series A Preferred Stock have been converted into common stock and accrued and unpaid dividends thereon have been converted into 2,919 shares of Common Stock. The conversion rate of the Series A Preferred Stock (and any accrued and unpaid dividends thereon) will be equitably adjusted for stock splits, stock combinations, recapitalizations, and in connection with certain other issuances of common stock by USA. Upon any liquidation, dissolution, or winding-up of USA, the holders of Series A Preferred Stock are entitled to receive a distribution in preference to the Common Stock in the amount of $10 per share plus any accumulated and unpaid dividends.

We have the right, at any time, to redeem all or any part of the issued and outstanding series A preferred stock for the sum of $11 per share plus any and all unpaid and accumulated dividends thereon. Upon notice by USA of such call, the holders of the series A preferred stock so called will have the opportunity to convert their shares and any unpaid and accumulated dividends thereon into shares of common stock. The $11 per share figure was the redemption price approved by the Directors and shareholders of USA at the time the series A preferred stock was created and first issued. We currently have no plans to redeem the preferred stock.

COMMON STOCK PURCHASE WARRANTS

As of September 30, 2007, there were 1,678,186 Common Stock warrants outstanding, all of which were exercisable at exercise prices ranging from $6.40 to $20 per share.

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

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

SHARES ELIGIBLE FOR FUTURE SALE

Of the 12,544,072 shares of common stock issued and outstanding on September 30, 2007, all are freely transferable without further registration under the Act (other than shares held by “affiliates” of the Company). As of September 30, 2007, there were 520,392 shares of preferred stock issued and outstanding, all of which are freely transferable without further registration under the Act (other than shares held by "affiliates" of USA).

The shares of preferred stock issued and outstanding as of September 30, 2007, are convertible into 5,203 shares of common stock all of which would be fully transferable without further registration under the Act (other than shares held by "affiliates" of USA).

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

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

LIMITATION OF LIABILITY; INDEMNIFICATION

As permitted by the Pennsylvania Business Corporation Law of 1988 ("BCL"), our By-laws provide that Directors will not be personally liable, as such, for monetary damages for any action taken unless the Director has breached or failed to perform the duties of a Director under the BCL and the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness. This limitation of personal liability does not apply to any responsibility or liability pursuant to any criminal statute, or any liability for the payment of taxes pursuant to Federal, State or local law. The By-laws also include provisions for indemnification of our Directors and officers to the fullest extent permitted by the BCL. In addition, the Company has entered into separate indemnification agreements with its Directors and executive officers which require the Company to indemnify each of such executive officers and directors to the fullest extent permitted by the law of the Commonwealth of Pennsylvania against certain liabilities which may arise by reason of their status as directors and officers. The indemnification agreements also provide that the Company must advance all expenses incurred by the indemnified person in connection with any proceeding, provided the indemnified person undertakes to repay the advanced amounts if it is determined ultimately that the indemnified person is not entitled to be indemnified. Insofar as indemnification for liabilities arising under the Act may be permitted to Directors, officers and controlling persons of USA pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

TRANSFER AGENT AND REGISTRAR

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

LEGAL MATTERS

The validity of the common stock has been passed upon for us by Lurio & Associates, P.C., Philadelphia, Pennsylvania 19103.

EXPERTS

The consolidated financial statements and schedule of USA Technologies, Inc. at June 30, 2007, 2006 and 2005, and for each of the three years ended June 30, 2007, 2006 and 2005 appearing in this Prospectus and Registration Statement have been audited by Goldstein Golub Kessler LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

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

We will furnish record holders of our securities with annual reports containing financial statements audited and reported upon by our independent auditors, quarterly reports containing unaudited interim financial information, and such other periodic reports as we may determine to be appropriate or as may be required by law.

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

FINANCIAL STATEMENTS

USA TECHNOLOGIES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Financial Statements:

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

Board of Directors and Shareholders of
USA Technologies, Inc.

We have audited the accompanying consolidated balance sheets of USA Technologies, Inc. as of June 30, 2007 and 2006 and the related consolidated statement of operations, shareholders' equity, and cash flows for the years ended June 30, 2007, 2006 and 2005. Our audits also included the June 30, 2007, 2006 and 2005 balances in the financial statement schedule. These consolidated financial statements and the schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of USA Technologies, Inc. at June 30, 2007 and 2006 and the consolidated results of their operations and their cash flows for the years ended June 30, 2007, 2006 and 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related June 30, 2007, 2006 and 2005 balances in the consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Goldstein Golub Kessler LLP

New York, NY
September 26, 2007

USA Technologies, Inc.
Consolidated Balance Sheets

	June 30 2007	June 30 2006	September 2007 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$ 5,163,844	$ 2,866,801	$ 3,943,241
Available-for-sale securities	6,350,000	-	6,350,000
Accounts receivable, less allowance for uncollectible accounts of $142,000, $229,000 and $145,000, respectively	2,269,193	1,022,114	3,134,753
Finance receivables	330,692	418,184	360,855
Inventory	3,033,792	1,410,812	2,655,242
Prepaid expenses and other current assets	206,508	209,108	421,636
Total current assets	17,354,029	5,927,019	16,865,727
Finance receivables, less current portion	279,324	289,389	417,681
Property and equipment, net	1,876,754	1,119,304	1,844,558
Intangibles, net	7,122,032	8,358,632	6,812,882
Goodwill	7,663,208	7,663,208	7,663,208
Other assets	196,150	61,914	196,150
Total assets	$ 34,491,497	$ 23,419,466	$ 33,800,206
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	$ 3,945,894	$ 2,448,611	$ 2,996,372
Accrued expenses	1,431,652	2,012,938	3,548,771
Current obligations under long-term debt	514,302	89,917	691,472
Convertible senior notes	-	851,486	-
Total current liabilities	5,891,848	5,402,952	7,236,615
Convertible senior notes, less current portion	-	6,805,403	-
Long-term debt, less current portion	515,443	34,047	563,864
Total liabilities	6,407,291	12,242,402	7,800,479
Commitments and contingencies (Note 14)			
Shareholders' equity:			
Preferred stock, no par value:			
Authorized shares- 1,800,000 Series A convertible preferred-Authorized shares- 900,000			
Issued and outstanding share- 520,392, 521,542 and 520,392, respectively (liquidation prefence of $14,196,632, $13,441,681, and $14,586,926, respectively)	3,686,218	3,694,360	3,686,218
Common stock, no par value:			
Authorized shares- 640,000,000 Issued and outstanding shares- 11,810,849, 6,372,175, and 12,544,072, respectively	172,822,868	138,110,126	176,001,378
Accumulated deficit	(148,424,880)	(130,627,422)	(153,687,869
Total shareholders' equity	28,084,206	11,177,064	25,999,727
Total liabilities and shareholders' equity	$ 34,491,497	$ 23,419,466	$ 33,800,206

See accompanying notes.

USA Technologies, Inc.
Consolidated Statements of Operations

	Year ended June 30			Three months ended September 30	
	2007	2006	2005	2007	2006
Revenues:				(Unaudited)	
Equipment sales	$ 7,454,076	$ 5,198,360	$ 3,535,064	$ 2,650,264	$ 1,670,807
License and transaction fees	1,703,936	1,216,443	1,142,925	705,392	338,090
Total revenues	9,158,012	6,414,803	4,677,989	3,355,656	2,008,897
Cost of equipment	6,442,627	3,549,450	2,430,649	2,272,492	1,131,159
Cost of services	1,369,152	855,077	1,048,024	563,988	262,202
Gross profit	1,346,233	2,010,346	1,199,316	519,176	615,536
Operating expenses:					
Selling, general and administrative	14,706,156	12,092,552	11,989,403	5,392,034	3,347,056
Depreciation and amortization	1,748,653	1,699,593	1,600,120	500,627	426,972
Total operating expenses	16,454,809	13,792,145	13,589,523	5,892,661	3,774,028
Operating loss	(15,108,576)	(11,781,799)	(12,390,207)	(5,373,485)	(3,158,492)
Other income (expense):					
Interest income	315,827	99,776	61,068	148,892	32,543
Other loss	(4,759)	(16,087)	(42,300)	-	-
Legal loss contingency		(270,000)	-	-	-
Interest expense:					
Coupon or stated rate	(746,578)	(1,365,860)	(1,256,999)	(38,396)	(297,380)
Non-cash interest and amortization of debt discount	(2,238,372)	(1,513,106)	(1,870,752)	-	(256,985)
Total interest expense	(2,984,950)	(2,878,966)	(3,127,751)	(38,396)	(554,365)
Total other income (expense)	(2,673,882)	(3,065,277)	(3,108,983)	110,496	(521,822)
Net loss	(17,782,458)	(14,847,076)	(15,499,190)	(5,262,989)	(3,680,314)
Cumulative preferred dividends	(781,451)	(783,289)	(784,113)	(390,294)	(391,157)
Loss applicable to common shares	$ (18,563,909)	$ (15,630,365)	$ (16,283,303)	$ (5,653,283)	$ (4,071,471)
Loss per common share (basic and diluted)	$ (2.13)	$ (3.15)	$ (4.18)	$ (0.47)	$ (0.63)
Weighted average number of common shares outstanding (basic and diluted)	8,702,523	4,965,501	3,894,204	12,031,530	6,451,553

See accompanying notes.

USA Technologies, Inc.
Consolidated Statements of Shareholders' Equity

	Series A Convertible Preferred Stock	Common Stock	Subscriptions Receivable	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balance, June 30, 2004	$ 3,702,856	$ 110,635,743	$ --	$ 32,249	$ (100,262,186)	$ 14,108,662
Exercise of 109,942 common stock warrants at $10 per share, net	--	1,094,658	--	--	--	1,094,658
Issuance of 90,351 shares of common stock from the conversion of 12% senior notes	--	931,208	--	--	--	931,208
Issuance of 8,005 shares of common stock for employee compensation	--	107,670	--	--	--	107,670
Issuance of 384,504 shares of common stock to an accredited investor at varying prices per share, less issuance costs of $291,166	--	3,779,454	--	--	--	3,779,454
Issuance of 233,333 shares of common stock from a private placement at varying prices per share, less issuance costs of $73,103	--	3,426,897	(233,850)	--	--	3,193,047
Cancellation of 7,000 shares of common stock in connection with the Bayview acquisition	--	(322,000)	--	--	--	(322,000)
Debt discount related to the beneficial conversion feature on various senior notes issued	--	1,944,845	--	--	--	1,944,845
Comprehensive loss:						
Net loss	--	--	--	--	(15,499,190)	(15,499,190)
Unrealized loss on investment	--	--	--	(29,169)	--	(29,169)
Total comprehensive loss						(15,528,359)
Balance, June 30, 2005	$ 3,702,856	$ 121,598,475	$ (233,850)	$ 3,080	$ (115,761,376)	$ 9,309,185

See accompanying notes.

USA Technologies, Inc.
Consolidated Statements of Shareholders' Equity (Continued)

	Series A Convertible Preferred Stock	Common Stock	Subscriptions Receivable	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Issuance of 1,754,428 shares of common stock to accredited investors at varying prices per share	$ --	$ 13,747,261	$ --	$ --	$ --	$ 13,747,261
Exercise of 36,800 2005-D common stock warrants at $10 per share	--	368,000	--	--	--	368,000
Cancellation of 15,590 shares of common stock issued as part of the 2005-D private placement	--	(233,850)	233,850	--	--	--
Conversion of 1,200 shares of preferred stock to 12 shares of common stock	(8,496)	8,496	--	--	--	--
Conversion of $18,320 of cumulative preferred dividends into 18 shares of common stock at $1,000 per share	--	18,320	--	--	(18,970)	(650)
Issuance of 59,247 shares of common stock from the conversion of senior notes	--	667,469	--	--	--	667,469
Debt discount related to the beneficial conversion feature on senior notes	--	552,263	--	--	--	552,263
Issuance of special purchase rights in conjunction with the 2008-C and 2010-A senior notes	--	428,941	--	--	--	428,941
Issuance of 9,500 shares of common stock for employee compensation	--	79,195	--	--	--	79,195
Stock option compensation charges	--	875,556	--	--	--	875,556
Comprehensive loss:						
Net loss	--	--	--	--	(14,847,076)	(14,847,076)
Unrealized loss on investment	--	--	--	(3,080)	--	(3,080)
Total comprehensive loss						(14,850,156)
Balance, June 30, 2006	$ 3,694,360	$ 138,110,126	$ --	$ --	$ (130,627,422)	$ 11,177,064

See accompanying notes.

USA Technologies, Inc.
Consolidated Statements of Shareholders' Equity (Continued)

	Series A Convertible Preferred Stock	Common Stock	Accumulated Other Subscriptions Receivable	Comprehensive Income	Accumulated Deficit	Total
Issuance of 2,148,663 shares of common stock to an accredited investor at varying prices per share, less issuance costs of $147,359	$ --	$ 12,974,036	$ --	$ --	$ --	$ 12,974,036
Issuance of 1,400,000 shares of common stock to an accredited investor at $6.00 per share and 700,017 warrants exercisable at $6.40 per share, less issuance costs of $542,801	--	7,857,199	--	--	--	7,857,199
Issuance of 1,666,667 shares of common stock to an accredited investor at $6.00 per share and 833,333 warrants exercisable at $6.40 per share, less issuance costs of $100,150	--	9,899,850	--	--	--	9,899,850
Exercise of 32,098 and 11,454 warrants at $6.40 and $6.60 per share, respectively	--	281,024	--	--	--	281,024
Conversion of 1,150 shares of preferred stock into 11 shares of common stock	(8,142)	8,142	--	--	--	--
Conversion of $15,000 of cumulative preferred dividends into 15 shares of common stock at $1,000 per share	--	15,000	--	--	(15,000)	--
Issuance of 154,930 shares of common stock from the conversion of senior notes	--	1,549,300	--	--	--	1,549,300
Issuance of 42,536 shares of common stock to settle legal matters	--	288,000	--	--	--	288,000
Retirement of 1,300 shares of common stock	--	(23,000)	--	--	--	(23,000)
Issuance of 16,587 shares of common stock under 2006-A Stock Compensation Plan	--	104,345	--	--	--	104,345
Issuance of 12,013 shares of common stock under 2007-A Stock Compensation Plan	--	74,135	--	--	--	74,135
Charges incurred in connection with the issuance of common stock for employee compensation	--	722,497	--	--	--	722,497
Charges incurred in connection with the Long-Term Equity Incentive Program relating to the vesting of 101,578 shares to be issued	--	599,311	--	--	--	599,311
Charges incurred in connection with stock options	--	362,903	--	--	--	362,903
Comprehensive loss:						
Net loss	--	--	--	--	(17,782,458)	(17,782,458)
Balance, June 30, 2007	$ 3,686,218	$ 172,822,868	$ --	$ --	$ (148,424,880)	$ 28,084,206

See accompanying notes.

USA Technologies, Inc.
Consolidated Statements of Shareholders' Equity (Continued)

	Series A Convertible Preferred Stock	Common Stock	Accumulated Other Subscriptions Receivable	Comprehensive Income	Accumulated Deficit	Total
Issuance of 474,385 shares of common stock to an accredited investor at varying prices per share, less issuance costs	$ --	$ 3,490,890	$ --	$ --	$ --	$ 3,490,890
Exercise of 25,989 warrants at $6.40 per Share	--	166,330	--	--	--	166,330
Retirement of 400 shares of common stock	--	(5,600)	--	--	--	(5,600)
Issuance of 8,000 shares of common stock to employees under the 2007-A Stock Compensation Plan	--	81,355	--	--	--	81,355
Reclassification of charges from Long-Term Equity Incentive Program to share-based liability	--	(599,311)	--	--	--	(599,311)
Charges incurred in connection with the vesting of common stock for employee compensation	--	14,569	--	--		14,569
Charges incurred in connection with stock options	--	30,277	--	--	--	30,277
Net loss	--	--	--	--	(5,262,989)	(5,262,989)
Balance, September 30, 2007 (unaudited)	$ 3,686,218	$ 176,001,378	$ --	$ --	$ (153,687,869)	$ 25,999,727

See accompanying notes.

USA Technologies, Inc.
Consolidated Statements of Cash Flows

	Year ended June 30			Three months ended September 30	
	2007	2006	2005	2007	2006
				(Unaudited)	(Unaudited)
OPERATING ACTIVITIES:					
Net loss	$ (17,782,458)	$ (14,847,076)	$ (15,499,190)	$ (5,262,989)	$ (3,680,314)
Adjustment to reconcile net loss to net cash used in operating activities:					
Charges incurred in connection with the issuance of common stock for employee compensation	1,500,288	79,195	107,670	1,587,355	262,683
Charges incurred in connection with stock option compensation	362,903	875,556	-	30,277	94,343
Non-cash interest and amortization of debt discount	2,238,372	1,513,106	1,870,752	-	256,985
Charges incurred in connection with the issuance of common stock for legal settlements	18,000	-	-	-	-
Depreciation	510,678	462,993	363,520	191,477	117,822
Amortization	1,236,600	1,236,600	1,236,600	309,150	309.150
Other loss	-	17,144	42,300	-	-
Gain on repayment of senior notes	(44,285)	-	-	-	(22,310)
Bad debt expense (recovery)	8,806	130,778	(23,215)	5,012	56,249
Changes in operating assets and liabilities:					
Accounts receivable	(1,255,885)	(408,851)	50,895	(870,572)	(241,795)
Finance receivables	97,557	(182,256)	(221,181)	(168,520)	(9,021)
Inventory	(1,622,980)	286,424	10,448	378,550	(58,486)
Prepaid expenses and other assets	(131,636)	37,711	(85,541)	(215,128)	(30,767)
Accounts payable	1,497,283	(817,317)	336,437	(949,522)	(89,178)
Accrued expenses	(311,286)	533,586	(90,016)	26,377	36,468
Net cash used in operating activities	(13,678,043)	(11,082,407)	(11,900,521)	(4,938,533)	(2,998,171)
INVESTING ACTIVITIES:					
Purchase of property and equipment, net	(526,615)	(842,470)	(248,043)	(95,356)	(93,623)
Purchase of available-for-sale securities	(7,000,000)	-	-	-	-
Cash received from the sale of available-for-sale securities	650,000	19,243	-	-	-
Cash received from the sale of assets held for sale	-	-	23,700	-	-
Net cash used in investing activities	(6,876,615)	(823,227)	(224,343)	(95,356)	(93,623)

See accompanying notes.

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

	Year ended June 30			Three months ended September 30	
	2007	2006	2005	2007 (Unaudited)	2006 (Unaudited)
FINANCING ACTIVITIES:					
Net proceeds from the issuance of common stock and the exercise of common stock warrants	$ 30,989,108	$ 14,114,612	$ 8,004,436	$ 3,651,620	$ 1,803,500
Collection of subscriptions receivable	-	35,723	300,000	-	-
Net proceeds from the issuance of senior notes	-	1,314,944	3,305,790	-	-
Proceeds from the issuance of long-term debt	470,000	-	-	239,740	-
Repayment of senior notes	(8,301,676)	(2,654,821)	(143,887)	-	(89,240)
Repayment of long-term debt	(305,731)	(135,904)	(262,808)	(78,074)	(28,208)
Net cash provided by financing activities	22,851,701	12,674,554	11,203,531	3,813,286	1,686,052
Net increase (decrease) in cash and cash equivalents	2,297,043	768,920	(921,333)	(1,220,603)	(1,405,742)
Cash and cash equivalents at beginning of period	2,866,801	2,097,881	3,019,214	5,163,844	2,866,801
Cash and cash equivalents at end of period	$ 5,163,844	$ 2,866,801	$ 2,097,881	$ 3,943,241	$ 1,461,059
Supplemental disclosures of cash flow information:					
Cash paid for interest	$ 1,013,339	$ 1,430,115	$ 1,187,833	$ 52,970	$ 286,022
Equipment and software under capital lease	$ 741,513	$ -	$ -	$ 63,925	$ -
Purchases of equipment with long-term debt	$ -	$ 54,900	$ 197,450	$ -	$ -
Conversion of convertible preferred stock to common stock	$ 8,142	$ 8,496	$ -	$ -	$ 8,142
Conversion of cumulative preferred dividends to common stock	$ 15,000	$ 18,320	$ -	$ -	$ 15,000
Subscriptions receivable	$ -	$ -	$ 35,723	$ -	$ -
Conversion of senior notes to common stock	$ 1,549,300	$ 667,469	$ 931,208	$ -	$ 500
Cancellation of common stock in connection with Bayview acquisition	$ -	$ -	$ (322,000)	$ -	$ -
Common stock issued to settle lawsuit	$ 270,000	$ -	$ -	$ -	$ -
Beneficial conversion feature related to senior notes	$ -	$ 552,263	$ 1,944,845	$ -	$ -
Debt discount related to issuance of purchase rights	$ -	$ 428,941	$ -	$ -	$ -

See accompanying notes.

USA Technologies, Inc.
Notes to Consolidated Financial Statements

1. BUSINESS

USA Technologies, Inc. (the "Company") was incorporated in the Commonwealth of Pennsylvania in January 1992. The Company is a leading supplier of cashless, remote management, reporting and energy management solutions serving the unattended Point of Sale market. Our networked devices and associated services enable the owners and operators of everyday, stand-alone, distributed assets, such as vending machines, kiosks, personal computers, photocopiers, and laundry equipment, the ability to remotely monitor, control and report on the results of these distributed assets, as well as the ability to offer their customers cashless payment options. As a result of the acquisition of the assets of Bayview Technology Group, LLC ("Bayview") in July 2003 (Note 3), our Company also manufactures and sells energy management products which reduce the electrical power consumption of various existing equipment, such as refrigerated vending machines and glass front coolers, thus reducing the electrical energy costs associated with operating this equipment. The Company's customers are principally located in the United States.

The Company has incurred losses from its inception through June 30, 2007 and losses have continued through September 2007 and are expected to continue during fiscal year 2008. The Company's ability to meet its future obligations is dependent upon the success of its products and services in the marketplace and the available capital resources. Until the Company's products and services can generate sufficient operating revenues, the Company will be required to use its cash and cash equivalents on hand and available-for-sale securities (Note 2) as well as raise capital to meet its cash flow requirements including the issuance of Common Stock (Note 11) and the exercise of outstanding Common Stock warrants (Note 12).

2. ACCOUNTING POLICIES

INTERIM FINANCIAL INFORMATION

The consolidated financial statements and disclosures included herein for the three months ended September 30, 2007 and 2006 are unaudited. These financial statements and disclosures have been prepared by the Company in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period September 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2008.

CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Stitch Networks Corporation ("Stitch") and USAT Capital Corp LLC (“USAT Capital”). All significant intercompany accounts and transactions have been eliminated in consolidation.

USE OF ESTIMATES

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles 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.

RECLASSIFICATION

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

CASH EQUIVALENTS

Cash equivalents represent all highly liquid investments with original maturities of three months or less. Cash equivalents are comprised of certificates of deposit and a money market fund. The Company maintains its cash in bank deposit accounts, which may exceed federally insured limits at times.

USA Technologies, Inc.
Notes to Consolidated Financial Statements

2. ACCOUNTING POLICIES (CONTINUED)

AVAILABLE-FOR-SALE SECURITIES

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.

As of June 30, 2007 and as of September 30, 2007, available-for-sales securities consisted of auction market securities. There was no unrealized gain (loss) as of June 30, 2007 and September 30, 2007 (unaudited).

ACCOUNTS RECEIVABLE

Accounts receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Company estimates doubtful accounts for accounts receivable and finance receivables based on historical bad debts, factors related to specific customers' ability to pay and current economic trends. The Company writes off accounts receivable against the allowance when management determines the balance is uncollectible and the Company ceases collection efforts. Management believes that the allowance accrued is adequate to provide for normal credit losses.

FINANCE RECEIVABLES

The Company offers extended payment terms to certain customers for equipment sales. The Company provides an allowance for credit losses as discussed above and discontinues the accrual of interest, if necessary. Finance receivables are carried at their contractual amount and charged off against the allowance for credit losses when management determines that recovery is unlikely and the Company ceases collection efforts. The Company recognizes a portion of the loan payments as interest income based on the effective interest rate method in the accompanying Consolidated Statement of Operations.

INVENTORY

Inventory consists of finished goods and packaging materials. Through November 30, 2005, inventory was stated at the lower of cost (first-in, first-out basis) or market. Due to the implementation of a new accounting system on December 1, 2005, the Company's inventory is stated at the lower of cost (average cost basis) or market. The Company determined that the change in accounting principle was not material.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Property and equipment are depreciated on the straight-line basis 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 term.

2. ACCOUNTING POLICIES (CONTINUED)

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, "Goodwill and Other Intangible Assets" ("FAS 142"). Under FAS 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. 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. The Company has concluded there has been no impairment of goodwill as a result of its testing on April 1, 2005, April 1, 2006 and April 1, 2007. During the three months ended September 30, 2007 (unaudited), no events or circumstances arose indicating that an impairment of goodwill may have occurred.

Patents, trademarks and the non-compete agreement are carried at cost less accumulated amortization, which is calculated on a straight-line basis over their estimated economic life. The Company reviews intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset is considered to be impaired when the sum of the undiscounted future net cash flows resulting from the use of the asset and its eventual disposition is less than its carrying amount. The amount of the impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value.

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" ("FAS 144"), 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 FAS 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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, accounts receivable, finance receivables-current portion, other current assets, accounts payable and accrued expenses reported in the consolidated balance sheets equal or approximate fair value due to their short maturities. The fair value of the Company's long-term finance receivables and long-term debt approximates book value as such instruments are at market rates currently available to the Company. The fair value of the senior notes approximates the principal amount as such instruments are at market rates currently available to the Company.

CONCENTRATION OF CREDIT RISK

Financial instruments that subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and accounts and finance receivables. The Company maintains cash and cash equivalents with various financial institutions. Approximately 41% and 39% of the Company's accounts and finance receivables at June 30, 2007 and 2006, respectively, were concentrated with two customers each year and 68% (unaudited) as of September 30, 2007 were concentrated with two customers. Approximately 40%, 29% and 11% of the Company's revenues for the year ended June 30, 2007, 2006 and 2005, respectively, were concentrated with one, two (19% with one customer and 10% with another customer), and one customer, respectively. Approximately 46% (unaudited) and 24% (unaudited) of the Company’s revenues for the three months ended September 30, 2007 and 2006, respectively, were concentrated with one customer and one customer, respectively. The Company's customers are principally located in the United States.

2. ACCOUNTING POLICIES (CONTINUED)

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. License fees for access to the Company's devices and network services are recognized on a monthly basis. Product revenues are recognized for the sale of products from Company owned vending machines when there is purchase and acceptance of product by the vending customer. In all cases, revenue is only recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed and determinable, and collection of the resulting receivable is reasonably assured. The Company estimates an allowance for product returns at the date of sale.

WARRANTY COSTS

The Company generally warrants its products for one to three years. Warranty costs are estimated and recorded at the time of sale based on historical warranty experience, if available.

SHIPPING AND HANDLING

Shipping and handling fees billed to our customers in connection with sales are recorded as revenue. The costs incurred for shipping and handling of our product are recorded as cost of sales.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are expensed as incurred. Research and development expenses, which are included in general and administrative and compensation expense in the consolidated statements of operations, were approximately $1,355,000, $974,000, and $1,364,000 for the years ended June 30, 2007, 2006 and 2005, respectively and $405,000 (unaudited) and $303,000 (unaudited) for the three months ended September 30, 2007 and 2006, respectively.

2. ACCOUNTING POLICIES (CONTINUED)

ACCOUNTING FOR STOCK OPTIONS

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, “Share-Based Payment” (“FAS 123R”), which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award.

On July 1, 2005, the Company adopted FAS123R using the Modified Prospective Application method. For outstanding nonvested share-based awards as of July 1, 2005, compensation expense for the portion of the award for which the requisite services have not been rendered will be recognized in the Statement of Operations as the services are rendered. Compensation expense will be recognized based on the grant-date fair value of the share-based award as previously calculated under FAS 123 at the time of the grant, however, the Company is required to adjust the compensation expense for expected forfeitures. Awards granted subsequent to July 1, 2005 will be based on the guidance provided by FAS 123R.

Due to the adoption of FAS 123R, the Company has recognized $14,044 of compensation expense during the year ended June 30, 2006 related to a single grant of 3,000 common stock options during the year ended June 30, 2005 for which were not fully vested as of the date of adoption. The remainder of the common stock options that were outstanding at the date of adoption were fully vested as of the date of adoption. There was no impact on cash flows or basic and diluted earnings per share.

The pro-forma disclosures required by FAS 123 have not been included for the year ended June 30, 2005 as the fair value of the options granted were not considered to be material.

There were no common stock options granted during the year ended June 30, 2007 or the quarter ended September 30, 2007. The Company recorded stock compensation expense of $1,500,288, $79,195 and $107,670 related to common stock grants and vesting of shares previously granted to employees and $362,903, $875,556 and $0 related to the vesting of common stock options during the year ended June 30, 2007, 2006 and 2005, respectively. The Company recorded stock compensation expense of $1,587,355 (unaudited) and $262,683 (unaudited) related to common stock grants and vesting of shares previously granted to employees and $30,277 (unaudited) and $94,343 (unaudited) related to the vesting of common stock options during the three months ended September 30, 2007 and 2006, respectively.

INCOME TAXES

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes”. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 effective July 1, 2007 and there was no material affect on our results of operations or financial position.

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 potential common shares (approximately 2,618,000, 1,081,000 and 1,250,000 shares as of June 30, 2007, 2006 and 2005, respectively). No exercise of stock options (163,000) or stock purchase warrants (1,704,175); or the conversion of preferred stock (5,203) or cumulative preferred dividends (8,992); or the issuance of shares granted under the Long-Term Equity Incentive Program (736,444) was assumed during the fiscal year ended June 30, 2007 because the result would be anti-dilutive. No exercise of stock options or stock purchase warrants, or the conversion of senior notes, preferred stock or cumulative preferred dividends was assumed during the fiscal years ended June 30, 2006 and 2005 or the three months ended September 30, 2007 (unaudited) and 2006 because the result would be anti-dilutive.

2. ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUCEMENTS

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157, “Fair Value Measurements” (“SFAS No.157”). This statement clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of this statement to have a material affect on our results of operations or financial position.

3. ACQUISITIONS AND INTANGIBLES

BAYVIEW TECHNOLOGY GROUP, LLC

On July 11, 2003, the Company acquired substantially all of the assets of Bayview. Under the terms of the asset purchase agreement, the Company issued to Bayview 200,000 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. Approximately $0, $149,000, and $112,000 of royalty expense was recorded during the years ended June 30, 2007, 2006 and 2005, respectively, in connection with this agreement. In connection with this transaction, the Company also agreed to issue 1,700 shares of its restricted Common Stock to a consultant who provided certain services to the Company in connection with this acquisition.

The acquisition allows the Company to offer energy conservation products that reduce the power consumption of various types of equipment, such as vending machines, glass front coolers and other "always-on" appliances by allowing the equipment to operate in power saving mode when the full power mode is not necessary.

The acquisition cost of Bayview was $10,030,894, which principally was comprised of the issuance of 200,000 shares of restricted Common Stock valued at $9,200,000 and a cash payment of $631,247. The value of the 200,000 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.

3. ACQUISITIONS AND INTANGIBLES (CONTINUED)

BAYVIEW TECHNOLOGY GROUP, LLC (CONTINUED)

Of the 200,000 shares issued to Bayview, 7,000 shares were placed into an escrow account to be issued to one owner of Bayview if certain Bayview stock options were exercised. This agreement called for these shares to be returned to the Company if the Bayview stock options were not exercised. During the three months ended September 30, 2004, the Company determined that the Bayview stock options would not be exercised and the shares previously issued into escrow would be cancelled. Therefore, the Company decreased the purchase price by $322,000 due to the return and cancellation of the 7,000 shares held in escrow. The decrease in the purchase price resulted in a reduction of goodwill and shareholders’ equity of $322,000 in the three months ended September 30, 2004.

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 year ended June 30, 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 year ended June 30, 2003 would have been as follows had the acquisition taken place July 1, 2002 - revenues of $8,487,190; net loss of $22,478,740; loss applicable to common shares of $23,272,326; loss per common share (basic and diluted) of $17.66.

The following table summarizes the final purchase price allocation to reflect 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 Bayview 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 a non-compete agreement that is 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.

USA Technologies, Inc.
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3. ACQUISITIONS AND INTANGIBLES (CONTINUED)

INTANGIBLE ASSETS

Amortization expense relating to all acquired intangible assets was $1,236,600, $1,236,600 and $1,236,600 during the years ended June 30, 2007, 2006 and 2005, respectively, and $309,150 (unaudited) and $309,150 (unaudited) for the three months ended September 30, 2007 and 2006, respectively. The intangible asset balance and related accumulated amortization consisted of the following:

	September 30, 2007 (Unaudited)		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Intangible assets:			
Trademarks	$ 2,064,000	$ (564,375)	$ 1,499,625
Patents	9,294,000	(4,138,372)	5,155,628
Non-Compete agreement	1,011,000	(853,371)	157,629
Total	$ 12,369,000	$ (5,556,118)	$ 6,812,882

	June 30, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Intangible assets:			
Trademarks	$ 2,064,000	$ (538,125)	$ 1,525,875
Patents	9,294,000	(3,906,022)	5,387,978
Non-Compete agreement	1,011,000	(802,821)	208,179
Total	$ 12,369,000	$ (5,246,968)	$ 7,122,032

	June 30, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Intangible assets:			
Trademarks	$ 2,064,000	$ (433,125)	$ 1,630,875
Patents	9,294,000	(2,976,622)	6,317,378
Non-Compete agreement	1,011,000	(600,621)	410,379
Total	$ 12,369,000	$ (4,010,368)	$ 8,358,632

At September 30, 2007 and June 30, 2007, the expected amortization of the intangible assets is as follows: $1,240,000 in fiscal year 2008, $1,030,000 per year in fiscal year 2009 through fiscal year 2012, $740,000 in fiscal year 2013 and $22,000 in fiscal year 2014. The weighted average useful life of these intangible assets is 9.55 years at June 30, 2007.

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4. PROPERTY AND EQUIPMENT

Property and equipment, at cost, consist of the following:

	Useful Lives	June 30 2007	June 30 2006	September 30 2007 (Unaudited)
Computer equipment and purchased software	3 years	$ 4,089,137	$ 3,063,618	$ 4,242,813
Vending machines and related components	7 years	4,427	4,427	4,427
Control systems	3 years	8,503	79,567	8,503
Furniture and equipment	5-7 years	940,386	738,746	944,242
Leasehold improvements	Lesser of life or lease term	118,475	126,007	120,224
Vehicles	5 years	29,066	29,066	29,066
		5,189,994	4,041,431	5,349,275
Less accumulated depreciation		(3,313,240)	(2,922,127)	(3,504,717)
		$ 1,876,754	$ 1,119,304	$ 1,844,558

Assets under capital lease totaled approximately $832,218 (unaudited), $741,513 and $0 as of September 30, 2007, June 30, 2007 and 2006, respectively. Capital lease amortization of approximately $39,310, $2,000, $2,000, $59,284 (unaudited) and $0 (unaudited), is included in depreciation expense for the years ended June 30, 2007, 2006 and 2005, and for the three months ended September 30, 2007 and 2006, respectively.

5. ACCRUED EXPENSES

Accrued expenses consist of the following:

	June 30 2007	June 30 2006	September 30 2007 (Unaudited)
Accrued compensation and related sales commissions	$ 502,431	$ 384,256	$ 614,978
Accrued interest	14,574	381,240	--
Accrued professional fees	207,786	162,051	115,171
Accrued taxes and filing fees	202,428	100,573	328,000
Accrued consulting fees	5,300	--	193.514
Advanced customer billings	96,264	109,007	28,115
Accrued loss contingency	--	270,000	--
Accrued share-based payment liability	--	--	1,956,662
Accrued other	402,869	605,811	312,331
	$ 1,431,652	$ 2,012,938	$ 3,548,771

USA Technologies, Inc.
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6. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2007, 2006, and 2005 and the three months ended September 30, 2007 and 2006, the Company incurred approximately $355,000, $258,000, $284,000, $102,000 (unaudited) and $118,000 (unaudited) respectively, in connection with legal services provided by a member of the Company's Board of Directors. At June 30, 2007 and 2006 and September 30, 2007, approximately $33,000, $28,000 and $52,000 (unaudited), respectively, of the Company's accounts payable and accrued expenses were due to this Board member. During the year ended June 30, 2005, the Company incurred approximately $72,600 in connection with consulting services provided by another member of the Company's Board of Directors. At September 30, 2007 and June 30, 2007, 2006 and 2005, approximately $0 (unaudited), $0, $0 and $73,000, respectively, of the Company's accrued expenses were due to this Board member. During the years ended June 30, 2007, 2006 and 2005, certain Board members and executives participated in various debt or equity offerings of the Company for total investments of approximately $0, $53,000, and $245,000, respectively. There was no participation by Board members in debt or equity offerings during the three months September 30, 2007 and 2006. As of June 30, 2007, 2006 and 2005, Mr. Illes (see Note 11), held $0, $1,000,000 and $1,000,000 of Senior Notes, respectively.

7. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30 2007	June 30 2006	September 30 2007 (Unaudited)
Capital lease obligations	$ 677,475	$ --	$ 668,264
Loan agreement	318,224	--	482,128
Software licensing and other	34,046	123,964	104,944
	1,029,745	123,964	1,255,336
Less current portion	514,302	89,917	691,472
	$ 515,443	$ 34,047	$ 563,864

The maturities of long-term debt as of June 30, 2007 are as follows:

2008	$ 514,302
2009	331,683
2010	125,751
2011	32,175
2012	25,834
	$ 1,029,745

During July 2007, the Company entered into a loan agreement for $150,355 with a financial institution bearing interest at 12% that was collaterized by $169,420 of the Finance Receivables. The Company agreed to make 32 monthly payments of $5,826, which include interest and principal, from the proceeds received from the Finance Receivables. During July 2007, the Company also entered into a loan agreement for $89,385 with the same financial institution bearing interest at 12% that was collaterized by $105,074 of the Finance Receivables. The Company agreed to make 32 monthly payments of $3,278, which include interest and principal, from the proceeds received from the Finance Receivables.

7. LONG-TERM DEBT (CONTINUED)

During October 2006, the Company entered into a loan agreement with a financial institution bearing interest at 18% and collaterized by $470,000 of the Finance Receivables. The Company received $470,000 in proceeds and agreed to make 12 monthly payments of $25,000 followed by 18 monthly payments of $15,000, which include interest and principal, from the proceeds received from the Finance Receivables. As of June 30, 2007, $206,223 and $121,428 of the current and long-term Finance Receivables, respectively, are collateral for the outstanding balance of the loan, of which $179,804 and $138,420 is current and long-term debt, respectively. Including the loan agreements added in July 2007, as listed above, as of September 30, 2007 $297,382 (unaudited) and $351,259 (unaudited) of the current and long-term Finance Receivables, respectively, are collateral for the outstanding balance of the loan, of which $247,594 (unaudited) and $234,534 (unaudited) is current and long-term debt, respectively.

During May 2007, the Company entered into a capital lease agreement in connection with office equipment for approximately $305,000, due in thirty-six equal monthly payments of $9,456 through April 2010 at an interest rate of 7.13%.

During March 2007, the Company entered into a capital lease agreement in connection with software licensing for approximately $290,000, due in sixteen equal monthly payments of $17,769 through July 2008 followed by two equal monthly payments of $19,787 through September 2008 at an interest rate of 14.27%.

During March 2007, the Company entered into a capital lease agreement in connection with office equipment for approximately $146,000, due in sixty equal monthly payments of $2,965 through March 2012 at an interest rate of 7.83%.

During fiscal year 2005, the Company entered into a loan agreement in connection with software licensing for approximately $170,000, due in eight equal quarterly payments of $21,229 through March 2007 at an interest rate of 5.32%. This loan agreement was satisfied in March 2007.

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8. INCOME TAXES

At June 30, 2007 and 2006, the Company had net operating loss carryforwards of approximately $125,443,000 and $111,024,000, respectively, to offset future taxable income expiring through approximately 2027. In addition, the Company had a capital loss carryforward of approximately $1,364,000 and $1,360,000 as of June 30, 2007 and 2006, respectively. At June 30, 2007 and 2006, the Company recorded net deferred tax assets of approximately $49,521,000 and $43,882,000, respectively, which was reduced by a valuation allowance of the same amount as the realization of the deferred tax asset is not likely, principally due to the lack of earnings history.

The timing and extent to which the Company can utilize future tax deductions in any year may be limited by provisions of the Internal Revenue Code regarding changes in ownership of corporations (i.e. IRS Code Section 382). Stitch had net operating loss carryforwards of approximately $11,800,000 at the acquisition date. Such net operating loss carryforwards are limited under the same provisions as to the amount available to offset future taxable income and to the extent used in any given year, will result in decreases to goodwill as opposed to income tax expense.

The net deferred tax assets arose primarily from the use of different accounting methods for financial statement and income tax reporting purposes as follows:

	JUNE 30	
	2007	2006
Deferred tax assets:		
Net operating loss and capital loss carryforwards	$ 47,018,000	$ 41,833,000
Deferred research and development costs	155,000	234,000
Software development costs	865,000	1,081,000
Intangibles	500,000	372,000
Stock based compensation	909,000	355,000
Other	653,000	703,000
	50,100,000	44,578,000
Deferred tax liabilities:		
Intangibles	(579,000)	(696,000)
	49,521,000	43,882,000
Valuation allowance	(49,521,000)	(43,882,000)
Deferred tax assets, net	$ --	$ --

9. SENIOR NOTES

The Company had issued six series of Senior Notes each with an annual interest rate of 12% that were convertible into shares of the Company's Common Stock for which there were outstanding obligations as of June 30, 2006 or 2005. These Senior Notes were scheduled to mature on December 31, 2004 ("2004 Senior Notes"), December 31, 2005 ("2005 Senior Notes"), December 31, 2006, December 31, 2007, December 31, 2008, and December 31, 2009. The Company had also issued three series of Senior Notes each with an annual interest rate of 10% that were convertible into shares of the Company's Common Stock for which there were outstanding obligations as of June 30, 2006 or June 30, 2005. These Senior Notes were scheduled to mature on June 30, 2007, December 31, 2008, and December 31, 2010. There were no Senior Notes outstanding as of June 30, 2007 due to the repayment of all of the Senior Notes during the year ended June 30, 2007. During the year ended June 30, 2007, repayments of Senior Notes totaled $8,325,961 (less discounts of $24,285) and $1,549,300 of Senior Notes were converted into 154,930 shares of Common Stock.

The 2004 Senior Notes were issued pursuant to a private placement offering authorized during the year ended June 30, 2002. The 2004 Senior Notes were convertible into shares of Common Stock at $40 per share at any time through December 31, 2004. Certain shareholders of the Company who held warrants to purchase shares of Common Stock exercisable at $50 per share were offered the opportunity to cancel those warrants and receive an equivalent number of new warrants exercisable at $10 per share if they invested in the 2004 Senior Note offering. The fair value of the new warrants issued and the intrinsic value of the beneficial conversion feature associated with the 2004 Senior Notes created debt discount that was allocated to equity and was amortized to interest expense through December 31, 2004. During January 2005, the Company repaid $131,152 of these Senior Notes and agreed with the holders of the remaining $320,000 of these notes to extend the maturity date to March 31, 2005. In exchange for extending the maturity date, the Company authorized a reduction of the conversion price to $10 resulting in the recording of $32,000 as debt discount related to the intrinsic value of this beneficial conversion feature, which was amortized through March 31, 2005. In March 2006, the maturity date of these notes was further extended to June 30, 2009 with no other terms being modified. In April 2007, all of these notes were converted into 32,000 shares of Common Stock.

The 2005 Senior Notes were issued pursuant to a private placement offering authorized during the year ended June 30, 2002 that included the issuance of 200 shares of Common Stock for each $10,000 of face amount of notes issued. The 2005 Senior Notes were convertible into shares of Common Stock at $20 per share at any time through December 31, 2005. The fair value of the Common Stock issued and the intrinsic value of beneficial conversion feature associated with the 2005 Senior Notes created debt discount that was allocated to equity and was amortized to interest expense through December 31, 2005. During the years ended June 30, 2006, 2005 and 2004, $130,000, $21,000, and $514,359, respectively, of the 2005 Senior Notes were converted into 6,500, 1,050, and 25,717, shares of Common Stock, respectively. On January 1, 2006, the Company repaid all of the outstanding 2005 Senior Notes for a total repayment of $910,262.

In March 2003, the Company granted to the holders of Senior Notes due December 31, 2003 (“2003 Senior Notes”) and the 2004 Senior Notes the right to extend the maturity date of these Senior Notes to December 31, 2006 (“2006 Senior Notes”) and December 31, 2007 (“2007 Senior Notes”), respectively, in exchange for reducing the conversion rates from $125 to $20 per share for the 2003 Senior Notes and from $40 to $20 per share for the 2004 Senior Notes. This offer expired on December 31, 2003. During the years ended June 30, 2004 and 2003, Senior Note holders agreed to exchange an aggregate of $2,303,953 and $6,911,397, respectively, of 2003 Senior Notes and 2004 Senior Notes for new notes maturing in 2006 and 2007. The exchange of the 2003 Senior Notes and 2004 Senior Notes to the 2006 Senior Notes and 2007 Senior Notes was deemed a significant modification of the terms of the Senior Notes and, accordingly, the exchanged 2003 Senior Notes and 2004 Senior Notes have been extinguished. The unamortized debt discount and other issuance costs remaining on the 2003 Senior Notes and 2004 Senior Notes exchanged and extinguished were expensed ($318,915 for the year ended June 30, 2004) and have been reported as a loss on debt modification in the Consolidated Statements of Operations. Included in the loss on debt modification for the year ended June 30, 2004 is $277,279 that occurred during the three months ended September 30, 2003. During fiscal year 2003 and 2004, the Company's share price was often greater than the conversion price at times when Senior Note holders exchanged their 2003 and 2004 Senior Notes for 2006 and 2007 Senior Notes.

9. SENIOR NOTES (CONTINUED)

The intrinsic value of this beneficial conversion feature created debt discount that was allocated to equity and was being amortized to interest expense through December 31, 2006 and 2007, respectively. During the year ended June 30, 2006 and 2004, $10,000 and $1,478,000, respectively, of the 2006 Senior Notes were converted into 500 and 73,900 shares of Common Stock, respectively. During the years ended June 30, 2006, 2005 and 2004, $10,000, $34,381, and $848,619, respectively, of the 2007 Senior Notes were converted into 500, 1,719 and 42,430 shares of Common Stock, respectively. During May 2006, the Company repaid all of the 2006 Senior Notes for a total principal repayment of $1,683,500.

On November 3, 2004, the Company authorized the issuance of up to $2,500,000 of Senior Notes convertible into shares of Common Stock at $10 per share and maturing on June 30, 2007 ("2007-B Senior Notes"). Interest is payable quarterly at a rate of 10% per annum. Participation in the Senior Note offering was offered to the holders of certain warrants issued in conjunction with the payment of interest on Senior Notes (see "Additional Interest Warrants" in Note 12), holders of the warrants issued in conjunction with the 2004-A Private Placement Offering, and to an accredited investor and current warrant holder. Due to the limited number of authorized shares available for issuance, the terms of the offering provided that all of such warrant holder's warrants would be cancelled if they participated in the offering. Through the last day of the offering, the Company received $1,550,789 in gross proceeds from sales of the 2007-B Senior Notes and 56,370 shares underlying the warrants were cancelled. As the Company's share price on the day of issuance of each of these Senior Notes was greater than the conversion price of $10, the Company recorded the intrinsic value of this beneficial conversion feature totaling $518,645 as additional debt discount, which is being amortized to interest expense through the maturity date of these Senior Notes. During the years ended June 30, 2007, 2006 and 2005, $500, $56,136 and $460,827, respectively, of the 2007-B Senior Notes were converted into 50, 5,613 and 46,082, respectively, shares of Common Stock. During December 2006, the Company repaid all of the 2007-B Senior Notes for a total principal repayment of $983,326.

On February 23, 2005, the Company authorized the issuance of up to $1,755,000 of Senior Notes, due April 30, 2005 to accredited investors (the "2005-B Senior Notes") with interest payable at a rate of 10% per annum. In connection with this offering, the Company paid a due diligence fee of $27,000 to an accredited investor. The Company received $1,755,000 in gross proceeds from the 2005-B Senior Note offering. On March 22, 2005, the Company authorized an offer whereby the holders of the 2005-B Senior Notes had the right through April 30, 2005 to exchange their 2005-B Senior Notes for Senior Notes convertible into shares of Common Stock at $10 per share maturing on December 31, 2010 ("2010 Senior Notes"). Interest on the 2010 Senior Notes is payable quarterly at 10% per annum. During March 2005, all of the 2005-B Senior Notes were exchanged for 2010 Senior Notes. As the Company's share price on the day of issuance of each of these Senior Notes was greater than the conversion price of $10, the Company recorded the intrinsic value of this beneficial conversion feature totaling $1,394,200 as additional debt discount, which is being amortized to interest expense through the maturity date of these Senior Notes. During the years ended June 30, 2007, 2006 and 2005, $778,800, $98,000 and $415,000, respectively, of the 2010 Senior Notes were converted into 77,880, 9,800 and 41,500 shares, respectively, of Common Stock. During the year ended June 30, 2007, the Company repaid all of the 2010 Senior Notes for a total principal repayment of $463,200 less a discount of $20,000.

On March 22, 2005, the Company authorized an offer to the holders of the Senior Notes whereby those holders could elect to extend the maturity date of their Senior Notes (the "Senior Note Extension Offer"). Holders of 2005 Senior Notes had the right to extend their maturity to December 31, 2008 ("2008 Senior Notes") and holders of 2006 Senior Notes had the right to elect to extend their maturity to December 31, 2009 ("2009 Senior Notes"). Principal on the Senior Notes extended was not be prepaid prior to April 1, 2006. During the year ended June 30, 2005, these Senior Note holders agreed to exchange an aggregate of $1,920,651 and $1,520,000, respectively, of 2005 Senior Notes and 2006 Senior Notes for new notes maturing in 2008 and 2009. The exchange of the 2005 Senior Notes and 2006 Senior Notes to the 2008 Senior Notes and 2009 Senior Notes was not deemed a significant modification of the terms of the Senior Notes and, accordingly, the unamortized debt discount and other issuance costs remaining on the 2005 Senior Notes and 2006 Senior Notes exchanged will be amortized to interest expense through the maturity date of the new notes. During the year ended June 30, 2007, the Company repaid all of the 2008 Senior Notes and 2009 Senior Notes for total principal repayments of $1,915,308 (less discounts of $19,772) and $1,520,000 respectively.

9. SENIOR NOTES (CONTINUED)

During October 2005, the Company approved a non-dilutive private placement offering of up to $2,333,333 of principal amount 10% Convertible Senior Notes due December 31, 2008 (the “2008-C Senior Notes”) to the holders of the 2005-D Common Stock Warrants, which were received in connection with an offering that commenced on March 22, 2005 and ended on April 15, 2005 (“2005-D Private Placement Offering”) in which accredited investors purchased Common Stock at $15 per share. The 2008-C Senior Note offering terminated on November 30, 2005. The holders of the 2005-D Common Stock Warrants had the right to purchase the principal amount of the 2008-C Senior Notes equal to the number of 2005-D Common Stock Warrants multiplied by $10. Upon the investment in the offering, the corresponding 2005-D Common Stock Warrants were cancelled, resulting in a non-dilutive offering. Interest on the 2008-C Senior Notes shall be paid on a quarterly basis in arrears at the rate of 10% per annum with the outstanding principal amount of the 2008-C Senior Notes together with all accrued and unpaid interest thereon to be paid in full no later than December 31, 2008. The 2008-C Senior Notes are convertible at any time into Common Stock at the rate of $10 per share. As the Company’s share price on the day of issuance of each of these Senior Notes was greater than the conversion price of $10, the Company recorded the intrinsic value of this beneficial conversion feature totaling $230,864 as additional debt discount, which is being amortized to interest expense through the maturity date of these Senior Notes. For each $10,000 investment in the 2008-C Senior Notes, the subscriber received a special purchase right to purchase up to 1,000 shares of Common Stock at $20 per share at any time on or before December 31, 2008. The Company issued $544,944 of the 2008-C Senior Notes during the six months ended December 31, 2005 and issued special purchase rights to acquire up to 54,494 shares of Common Stock at $20 per share. During January 2006, the holder of each special purchase right agreed to exchange the purchase rights for warrants to purchase shares of Common Stock at $20 at anytime prior to December 31, 2008. The fair value of the purchase rights issued in conjunction with the 2008-C Senior Notes created debt discount totaled $184,542, which is being amortized to interest expense through the maturity date of these Senior Notes. The fair value was estimated using the Black-Scholes model with the following assumptions: dividend yield of 0%, expected stock price volatility of 0.868, risk-free interest rate of 4.0%, and an expected life of three years. During the year ended June 30, 2006, $363,333 of the 2008-C Senior Notes were converted into 36,333 shares of Common Stock. During the year ended June 30, 2007, the Company repaid all of the 2008-C Senior Notes for a total principal repayment of $181,611 less a discount of $4,513.

During October 2005, the Company approved a non-dilutive private placement offering of up to $1,000,000 of Notes (“Bridge Notes”) due January 6, 2006 with interest payable on the due date at a rate of 10% per annum. The offering terminated on November 30, 2005. The Company issued $770,000 of the Bridge Notes. As all of the aforementioned 2008-C Senior Notes were not subscribed on the due date of the Bridge Notes, the Bridge Notes were automatically exchanged on January 6, 2006, in accordance with the original terms of Bridge Notes, for a like principal amount of new Convertible Senior Notes due December 31, 2010 (“2010-B Senior Notes”). Interest on the 2010-B Senior Notes is payable quarterly at 10% per annum and is convertible into Common Shares at $10 per share. As the Company’s share price on the day of issuance of each of these Senior Notes was greater than the conversion price of $10, the Company recorded the intrinsic value of this beneficial conversion feature totaling $321,399 as additional debt discount, which is being amortized to interest expense through the maturity date of these Senior Notes. In addition, for each $10,000 of 2010-B Senior Notes issued in exchange for the Bridge Notes, the Company also issued special purchase rights that enable the holder to purchase up to 1,000 shares of Common Stock at $20 per share through December 31, 2008. The Company issued $770,000 of the 2010-B Senior Notes and issued special purchase rights to acquire up to 77,000 shares of Common Stock at $20 per share. During January 2006, the holder of each special purchase right agreed to exchange the purchase rights for warrants to purchase shares of Common Stock at $20 at anytime prior to December 31, 2008. The fair value of the purchase rights issued in conjunction with the 2010-B Senior Notes created debt discount totaled $244,399, which is being amortized to interest expense through the maturity date of these Senior Notes. The fair value was estimated using the Black-Scholes model with the following assumptions: dividend yield of 0%, expected stock price volatility of 0.844, risk-free interest rate of 4.0%, and an expected life of three years. During the year ended June 30, 2007, $450,000 of the 2010-B Senior Notes were converted into 45,000 shares of Common Stock. During April 2007, the Company repaid all of the 2010-B Senior Notes for a total principal repayment of $320,000.

9. SENIOR NOTES (CONTINUED)

A summary of the activity for the Senior Notes for the years ended June 30, 2007 and 2006 follows:

	Senior Notes Maturing December 31,					
	2005 (2005 Senior Notes)	2006 (2006 Senior Notes)	2007 (2007 Senior Notes)	2008 (2008 & 2008-C Notes)	2009 (2009 Senior Notes)	2010 (2010 & 2010-B Senior Notes)
Face amount of Senior Notes Balance, June 30, 2005	$ 1,057,405	$ 1,693,500	$ 2,985,016	$ 1,920,651	$ 1,520,000	$ 1,340,000
2008-C Issued for cash	--	--	--	544,944	--	--
Bridge Notes converted into 2010-B Senior Notes	--	--	--	--	--	770,000
Repayment	(927,405)	(1,683,500)	(12,500)	(5,343)	--	--
Conversions to Common Stock	(130,000)	(10,000)	(10,000)	(363,333)	--	(98,000)
Balance, June 30, 2006	$ --	$ --	$ 2,962,516	$ 2,096,919	$ 1,520,000	$ 2,012,000
Repayment	--	--	(2,962,516)	(2,072,634)	(1,520,000)	(763,200)
Discount on Repayment	--	--	--	(24,285)	--	(20,000)
Conversions to Common Stock	--	--	--	--	--	(1,228,800)
Balance, June 30, 2007	$ --	$ --	$ --	$ --	$ --	$ --

	Senior Notes Maturing June 30,	
	2009	2007 (2007-B Senior Notes)
Face amount of Senior Notes		
Balance, June 30, 2005	$ 320,000	$ 1,089,962
Repayment	--	(50,000)
Conversions to Common Stock	--	(56,136)
Balance, June 30, 2006	$ 320,000	$ 983,826
Repayment	--	(983,326)
Conversions to Common Stock	(320,000)	(500)
Balance, June 30, 2007	$ --	$ --

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9. SENIOR NOTES (CONTINUED)

	Senior Notes Maturing December 31,					
	2005 (2005 Senior Notes)	2006 (2006 Senior Notes)	2007 (2007 Senior Notes)	2008 (2008 & 2008-C Notes)	2009 (2009 Senior Notes)	2010 (2010 & 2010-B Notes)
Debt discount and other issuance costs						
Unamortized costs at June 30, 2005	$ (125,244)	$ (294,189)	$ (420,387)	$ (334,748)	$ (291,839)	$ (1,017,422)
Debt discount from issuance	--	--	--	(415,406)	--	(565,798)
Amortization and write off of unamortized costs upon conversions to Common Stock	125,244	294,189	170,061	402,128	64,853	302,526
Unamortized costs at June 30, 2006	$ --	$ --	$ (250,326)	$ (348,026)	$ (226,986)	$ (1,280,694)
Amortization and write off of unamortized costs upon conversions to Common Stock	--	--	250,326	348,026	226,986	1,280,694
Unamortized costs at June 30, 2007	$ --	$ --	$ --	$ --	$ --	$ --
Senior Notes reflected in the Consolidated Balance Sheet:						
June 30, 2006						
Face amount	$ --	$ --	$ 2,962,516	$ 2,096,919	$ 1,520,000	$ 2,012,000
Unamortized costs	--	--	(250,326)	(348,026)	(226,986)	(1,280,694)
	$ --	$ --	$ 2,712,190	$ 1,748,893	$ 1,293,014	$ 731,306
June 30, 2007						
Face amount	$ --	$ --	$ --	$ --	$ --	$ --
Unamortized costs	--	--	--	--	--	--
	$ --	$ --	$ --	--	$ --	$ --

	Senior Notes Maturing June 30,	
	2009	2007 (2007-B Senior Notes)
Debt discount and other issuance costs		
Unamortized costs at June 30, 2005	$ --	$ (293,230)
Amortization and write off of unamortized costs upon conversions to Common Stock	--	160,890
Unamortized costs at June 30, 2006	$ --	$ (132,340)
Amortization and write off of unamortized costs upon conversions to Common Stock	--	132,340
Unamortized costs at June 30, 2007	$ --	$ --
Senior Notes reflected in the Consolidated Balance Sheet:		
June 30, 2006		
Face amount	$ 320,000	$ 983,286
Unamortized costs	--	$ (132,340)
	$ 320,000	$ 851,486
June 30, 2007		
Face amount	$ --	$ --
Unamortized costs	--	$ --
	$ --	$ --

10. PREFERRED STOCK

The authorized Preferred Stock may be issued from time to time in one or more series, each series with such rights, preferences or restrictions as determined by the Board of Directors. Each share of Series A Preferred Stock shall have the right to one-hundredth of a vote and is convertible at any time into one-hundredth of a share of Common Stock. Each share of Common Stock entitles the holder to one voting right. Series A Preferred Stock provides for an annual cumulative dividend of $1.50 per share, payable when, as and if declared by the Board of Directors, to the shareholders of record in equal parts on February 1 and August 1 of each year. Any and all accumulated and unpaid cash dividends on the Series A Preferred Stock must be declared and paid prior to the declaration and payment of any dividends on the Common Stock.

Cumulative unpaid dividends at June 30, 2007 and 2006 and September 30, 2007 amounted to $8,992,712, $8,226,261, and $9,383,006 (unaudited) respectively. Cumulative unpaid dividends are convertible into common shares at $1,000 per common share at the option of the shareholder. During the years ended June 30, 2007 and 2006 and the three months ended September 30, 2007, certain holders of the Preferred Stock converted 1,150, 1,200 and 0 (unaudited), respectively, into 11, 12 and 0 (unaudited) shares of Common Stock, respectively. Certain of these shareholders also converted cumulative preferred dividends of $15,000, $18,320 and $0 (unaudited), respectively, into 15, 18 and 0 (unaudited) shares of Common Stock during the years ended June 30, 2007 and 2006 and the three months ended September 30, 2007, respectively. There were no conversions of preferred stock or cumulative preferred dividends during the year ended June 30, 2005. The Series A Preferred Stock may be called for redemption at the option of the Board of Directors at any time on and after January 1, 1998 for a price of $11.00 per share plus payment of all accrued and unpaid dividends. No such redemption has occurred as of June 30, 2007, 2006, 2005 or September 30, 2007. In the event of any liquidation, the holders of shares of Series A Preferred Stock issued shall be entitled to receive $10.00 for each outstanding share plus all cumulative unpaid dividends. If funds are insufficient for this distribution, the assets available will be distributed ratably among the preferred shareholders.

11. COMMON STOCK

On February 7, 2006, our shareholders approved a 1-for-100 reverse stock split of our Common Stock. The effective date of the reverse stock split was February 17, 2006. On the effective date of the reverse stock split, (i) each 100 shares of outstanding Common Stock was reduced to one share of Common Stock; (ii) the number of shares of Common Stock into which each outstanding warrant, or option is exercisable was proportionately reduced on a 100-to-1 basis; (iii) the exercise price of each outstanding warrant, or option was proportionately increased on a 1-to-100 basis; (iv) the number of shares of Common Stock into which each share of Series A Preferred Stock is convertible was reduced from 1 share to one-hundredth of a share, and each share is entitled to one-hundredth of a vote rather than one vote per share as previously provided; (v) the conversion rate of the accrued and unpaid dividends on the Series A Preferred Stock was increased from $10.00 to $1,000.00 per share of Common Stock; (vi) and the conversion price of each convertible senior note proportionately increased on a 1-to-100 basis, and the number of shares into which each convertible senior note would be convertible was decreased on a 100-to-1 basis. The number of our authorized shares of Common Stock remains unchanged at 640,000,000. All of the share numbers, share prices, exercise prices, and conversion prices have been adjusted, on a retroactive basis, to reflect this 1-for-100 reverse stock split.

11. COMMON STOCK (CONTINUED)

The Company's Board of Directors has authorized various Common Stock private placement offerings. Activity for these offerings during the years ended June 30, 2007, 2006 and 2005 and the three months ended September 30, 2007.

- On March 14, 2007, the Company entered into a Securities Purchase Agreement with S.A.C. Capital Associates, LLC ("SAC"). Pursuant thereto, the Company sold to SAC 1,666,667 shares of the Company's Common Stock at a price of $6.00 per share for an aggregate purchase price of $10,000,000. The Company also issued warrants to SAC to purchase up to 833,333 shares of Common Stock at an exercise price of $6.40 per share. The warrants are exercisable at any time within six years following the six-month anniversary of the issuance of the warrants. The fair value of these warrants was estimated to be $2,897,204 using the Black-Scholes model with the following assumptions: dividend yield of 0%, expected stock price volatility of 0.545, risk free interest rate of 5.14%, and an expected life of six years. Upon vesting, the warrants are exercisable to the extent that such exercise would not result in the beneficial ownership by SAC and its affiliates of more than 9.99% of the number of shares outstanding immediately after giving effect to the issuance of shares upon exercise of the warrants. The warrant also provides that if the Company would issue securities in the future at a purchase price that is less than the exercise price of the warrant, then the exercise price of the warrant would be reduced to such lower purchase price, provided, however, that such exercise price can never be lower than $5.90 which was the closing bid price of our shares on the day prior to the sale of our securities to SAC. The warrant also provides that in the event we issue securities at a purchase price less than the exercise price of the warrant, the number of shares issuable under the warrant shall be increased by that number of shares determined by multiplying the exercise price in effect immediately prior to such adjustment by the number of shares issuable under the warrant immediately prior to such adjustment and dividing the product thereof by the new exercise price of the warrant (which can never be less than $5.90). Under this formula, the maximum number shares would be issuable under the warrant would be 903,955. The warrant provides that no adjustments shall be made for any shares sold to Mr. Illes by the Company under the 2006-B Common Stock Agreement, as described below. There were no commissions or placement agent fees paid by the Company in connection with this offering. The proceeds received by the Company were reduced by a $100,000 expense allowance**.** The Company registered the shares under this agreement effective May 11, 2007.

For a period of five years, SAC has been granted the pre-emptive right to purchase that number of securities being offered for sale by the Company in order to maintain SAC's pro-rata ownership of the Common Stock of the Company following the issuance of any such securities by the Company. SAC has also been granted the right to have one observer attend all of the Company's Board of Director meetings for a period of one year.

- On December 15, 2006, the Company entered into stock purchase agreements (the "Blair Agreements") with certain investors ("Buyers"). Pursuant to the Agreements, the Company agreed to sell to the Buyers 1,400,000 shares of the Company's Common Stock at a price of $6.00 per share, for gross proceeds of $8,400,000. The Company also agreed to issue to the Buyers warrants to purchase up to 700,017 common shares at an exercise price of $6.40 per share exercisable at any time through December 31, 2011. The fair value of these warrants was estimated to be $2,778,300 using the Black-Scholes model with the following assumptions: dividend yield of 0%, expected stock price volatility of 0.695, risk free interest rate of 4.76%, and an expected life of five years. The closing under the Blair Agreements occurred on December 20, 2006. William Blair & Co., LLC ("Blair") acted as the exclusive placement agent for the private placement. As compensation for its services, the Company paid Blair cash compensation of $542,801 and issued warrants to purchase up to 11,454 Common Shares at $6.60 per share at any time through December 31, 2011. Pursuant to the Blair Agreements, the Company agreed to file a registration statement with the SEC covering the resale of these shares and of the shares underlying the warrants within thirty days from the date of the Agreements. The Company registered the 1,400,000 shares and 711,454 warrants effective February 13, 2007.

11. COMMON STOCK (CONTINUED)

- On January 9, 2006, the Company entered into a Stock Purchase Agreement with Rationalwave Onshore Equity Fund, LP ("Rationalwave"). Under this agreement, the Company sold to Rationalwave 40,000 shares of Common Stock for $10 per share for an aggregate of $400,000.

- On December 13, 2005, the Company entered into a Stock Purchase Agreement with Wellington Management Company, LLP, a large Boston-based institutional investor, on behalf of certain of its clients ("Wellington"). Under this agreement, the Company sold to Wellington 400,000 shares of Common Stock for $10 per share for an aggregate of $4,000,000.

- On March 22, 2005, the Company authorized the issuance of up to 233,333 shares of Common Stock at $15 per share to accredited investors through April 15, 2005 (the "2005-D Private Placement Offering"). For shares purchased under the offering, the investors also received warrants to purchase an equal number of shares of Common Stock exercisable at $15 per share at any time prior to December 31, 2005. The Company issued 233,333 shares of Common Stock and 233,333 Common Stock warrants under the 2005-D Private Placement Offering, for total gross proceeds of $3,500,000. Included in this amount are subscriptions receivable of $35,723 and $233,850 at June 30, 2005, of which $35,723 was received in July 2005. The Company incurred $73,103 of stock issuance costs in connection with the 2005-D Private Placement Offering.

- A Common Stock purchase agreement with an accredited investor, Steve Illes, was initially executed in June 2004 and then replaced in August 2004 with a new agreement (the "Common Stock Agreement"). Pursuant to the Common Stock Agreement, the investor agreed to purchase shares of the Company's Common Stock, provided that the aggregate purchase price did not exceed $7,500,000. Under the Common Stock Agreement, the Company had the right at any time to require Mr. Illes to purchase Common Stock from the Company at the lower of: (i) $30 per share; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by the Company to the investor of notice of his obligation to purchase. The Company could require Mr. Illes to purchase shares under the Common Stock Agreement only if the shares had been registered by the Company for resale under the Act. Additionally, the shares were only available for purchase for a period of one year from the date the shares were registered under the Act. During any calendar month, Mr. Illes could not be required by the Company to purchase Common Stock for an aggregate purchase price in excess of $700,000. The Company registered 350,000 shares that were effective August 13, 2004. The Company agreed to pay Mr. Illes a due diligence fee of $45,000 in connection with this transaction. During the year ended June 30, 2005, the Company issued 349,504 shares of Common Stock under the Common Stock Agreement for total gross proceeds of $3,560,620. In addition to the due diligence fee, the Company incurred $152,624 of other stock issuance costs in connection with the Common Stock Agreement during the year ended June 30, 2005.

On April 4, 2005, the Company and Mr. Illes entered into a new Common Stock Purchase Agreement ("2005 Common Stock Agreement"). Pursuant to the 2005 Common Stock Agreement, Mr. Illes agreed to purchase shares of the Company's Common Stock, provided that the aggregate purchase price did not exceed $10,000,000. Under the 2005 Common Stock Agreement, the Company had the right at any time to require Mr. Illes to purchase Common Stock from the Company at the lower of: (i) $30 per share; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by the Company to the investor of notice of his obligation to purchase. During any calendar month, Mr. Illes could not be required by the Company to purchase Common Stock for an aggregate purchase price in excess of $800,000. The Company could require the investor to purchase shares under the Common Stock Agreement only if the shares had been registered by the Company for resale under the Act. The Company filed a registration statement related to this agreement that included 205,000 shares of Common Stock and was effective May 13, 2005 and a registration statement that included 360,000 shares of Common Stock and was effective February 14, 2006. The Company issued 5,000 shares of Common Stock ($90,000) to the investor as a due diligence/commitment fee in connection with this agreement. In addition to the due diligence fee, the Company incurred $48,542 of other stock issuance costs in connection with the 2005 Common Stock Agreement during the year ended June 30, 2005. During the year ended June 30, 2006 and 2005, the Company issued 529,999 and 30,000 shares, respectively, of Common Stock under the 2005 Common Stock Agreement for total gross proceeds of $4,443,066 and $420,000, respectively.

11. COMMON STOCK (CONTINUED)

On February 17, 2006, the Company entered into a Common Stock Purchase Agreement (the "2006 Common Stock Agreement") with Mr. Illes, an accredited investor. Mr. Illes agreed to purchase shares of the Company's Common Stock with an aggregate purchase price not to exceed $15,000,000. Under the 2006 Common Stock Agreement, the Company has the right at any time to require Mr. Illes to purchase Common Stock from the Company at the lower of: (i) $30.00 per share; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by the Company to Mr. Illes of notice of his obligation to purchase. The Company can require Mr. Illes to purchase shares only if the shares have been registered by the Company for resale under the Act. The agreement also states that no additional shares shall be registered under the 2005 Common Stock Agreement. During any calendar month, Mr. Illes cannot be required by the Company to purchase Common Stock for an aggregate purchase price in excess of $800,000. The Company has the right in the future, if necessary, to register additional shares in order to ensure that a sufficient number of shares are available for purchase by Mr. Illes. The 2006 Common Stock Agreement terminates June 30, 2009. The Company filed a registration statement related to the 2006 Common Stock Agreement that included 1,500,000 shares of Common Stock and was effective April 7, 2006. During the year ended June 30, 2007 and 2006, the Company issued 715,571 and 784,429 shares, respectively, of Common Stock under the 2006 Common Stock Agreement for total gross proceeds of $3,794,651 and $4,983,774, respectively.

On September 25, 2006, the Company entered into a Common Stock Purchase Agreement (the "2006-B Common Stock Agreement") with Steve Illes. Mr. Illes agreed to purchase shares of the Company's Common Stock with an aggregate purchase price not to exceed $15,000,000. Under the 2006-B Common Stock Agreement, the Company has the right at any time to require Mr. Illes to purchase Common Stock from the Company at the lower of: (i) $30.00 per share; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by the Company to Mr. Illes of notice of his obligation to purchase. The Company can require Mr. Illes to purchase shares only if the shares have been registered by the Company for resale by Mr. Illes under the Securities Act of 1933, as amended. The agreement also states that no additional shares shall be registered under the 2006 Common Stock Agreement. During any calendar month, Mr. Illes cannot be required by the Company to purchase Common Stock for an aggregate purchase price in excess of $800,000. The 2006-B Common Stock Agreement terminates August 30, 2009. The Company registered 1,500,000 and 800,000 shares effective December 21, 2006 and July 9, 2007, respectively. The Company has the right in the future, if necessary, to register additional shares for resale by Mr. Illes in order to ensure that a sufficient number of shares are available for purchase by Mr. Illes under the 2006-B Common Stock Agreement. The Company issued to Mr. Illes 20,000 shares of Common Stock as a due diligence fee in connection with this transaction and registered these shares for resale by Mr. Illes under the 1933 Act. During the year ended June 30, 2007 and the three months ended September 30, 2007, the Company issued 1,433,092 shares, including the 20,000 shares as a due diligence fee, and 474,385 (unaudited) shares of Common Stock, respectively, under the 2006-B Common Stock Agreement for total gross proceeds of $9,326,743 and $3,492,300 (unaudited), respectively. The Company incurred issuance costs of $147,509 and $1,410 (unaudited) during the year ended June 30, 2007 and the three months ended September 30, 2007, respectively, in connection with this agreement.

On March 17, 2005, the Company's shareholders approved an increase in the number of authorized shares of Common Stock from 475,000,000 to 560,000,000. On December 13, 2005, the Company's shareholders approved an increase in the number of authorized shares of Common Stock from 560,000,000 to 640,000,000.

During the year ended June 30, 2007 and 2006 and the three months ended September 30, 2007, warrants were exercised to purchase 43,552, 36,800 and 25,989 (unaudited) shares of Common Stock at share prices of $6.40, $10 and $6.40, generating proceeds of $281,024, $368,000 and $166,330 (unaudited). During the year ended June 30, 2005, warrants were exercised to purchase 109,942 shares of Common Stock at a share price of $10, generating net proceeds of $1,094,658.

There were 28,600, 9,500, 8,005 and 8,000 (unaudited) shares of Common Stock issued to certain employees and officers for services and for professional services during the years ended June 30, 2007, 2006, and 2005 and the three months ended September 30, 2007, respectively. The value of these shares was based upon the fair value of the Company's Common Stock on the dates the shares were granted and totaled $178,480, $79,195, $107,670 and $81,355 (unaudited) for the years ended June 30, 2007, 2006, and 2005 and the three months ended September 30, 2007, respectively.

11. COMMON STOCK (CONTINUED)

In April 2004, the Company's Board of Directors established and authorized the 2004-A Stock Compensation Plan for use in compensating employees, directors and consultants through the issuance of shares of Common Stock of the Company. There were 5,000 shares authorized under the 2004-A Plan. As of June 30, 2005, there were 5,000 shares issued under the 2004-A Plan. On October 29, 2004, the Board of Directors approved the 2004-B Stock Compensation Plan to allow up to 5,000 shares of Common Stock to be available for issuance to future or current employees, directors or consultants of the Company. As of June 30, 2006 and 2005, there were 5,000 and 3,913 shares, respectively, issued under the 2004-B Plan. On June 13, 2006, the Board of Directors approved the 2006-A Stock Compensation Plan to allow up to 25,000 shares of Common Stock to be available for issuance to future or current employees, directors or consultants of the Company. During the year ended June 30, 2007 and 2006, the Company issued 16,587 and 8,413 shares under the 2007-A Stock Compensation plan totaling $104,345 and $65,874 based on the grant date fair value of the shares. On January 8, 2007, the Board of Directors approved the 2007-A Stock Compensation Plan to allow up to 100,000 shares of Common Stock to be available for issuance to future or current employees, directors or consultants of the Company. As of June 30, 2007, there were 12,013 shares issued under the Plan totaling $74,135 based on the grant date fair value of the shares.

On February 12, 2007, upon recommendation of the Compensation Committee of the Board of Directors of the Company, the Board adopted the Long-Term Equity Incentive Program (the “Program”) for each of George R. Jensen, Jr., Stephen P. Herbert, and David M. DeMedio. The Program is intended to ensure continuity of the Company’s executive management, to encourage stock ownership by such persons, and to align the interests of executive management with those of the shareholders.

Pursuant to and as defined in the Program, each executive would be awarded shares of the Company’s Common Stock if the Company achieves certain target goals relating to revenues, gross profit, and EBITDA (the “Target Goals”) of the Company during each of the fiscal years ending June 30, 2007, June 30, 2008 and June 30, 2009. EBITDA is defined as earnings before interest, taxes, depreciation, and amortization, and excludes non-cash stock payments/awards and stock options granted to officers and Board members. The maximum number of shares that can be awarded under the Program is 952,298. The Program allows for the executive officers to reduce the number of shares to be issued in order to satisfy the minimum statutory tax withholding requirements.

During each such fiscal year, the number of eligible shares to be awarded to the executive is based upon the following weightings: 40% of eligible shares are determined by revenues; 30% of eligible shares are determined by gross profit; and 30% of eligible shares are determined by EBITDA.

If the Target Goals are achieved by the Company during the applicable fiscal year, the executive officers would be awarded the following number of shares:

	Fiscal Year Ended June 30,		
	2007	2008	2009
George R. Jensen, Jr.	178,570	178,570	178,570
Stephen P. Herbert	53,713	53,713	53,714
David M. DeMedio	21,663	21,663	21,664

If the actual results for a particular fiscal year exceeds the Target Goals, each executive would be awarded an additional pro rata portion of the eligible shares, up to an amount no greater than 125% of the number of eligible shares. If the actual results for a particular fiscal year is less than the Target Goals, each executive would be awarded a lesser pro rata portion of the number of eligible shares. If minimum Target Goals for a particular fiscal year are not achieved, no eligible shares would be awarded to each executive.

11. COMMON STOCK (CONTINUED)

If a USA Transaction (see Note 14) would occur during any such fiscal year, and provided that the executive is an employee of the Company on the date of such USA Transaction, the executive would be awarded shares for each of the fiscal years that have not yet been completed as of the date of such USA Transaction. The number of shares to be awarded to each executive for each of the uncompleted fiscal years 2008 and 2009 is as follows: Mr. Jensen-178,570 shares; Mr. Herbert-53,713 shares; and Mr. DeMedio-21,663 shares.

In conjunction with the Program, during March 2007, each of Mr. Jensen, Mr. Herbert, and Mr. DeMedio signed amendments to their Employment and Non-Competition Agreements. Based upon the audited financial results of the Company for the fiscal year ended June 30, 2007, the target goal (100%) relating to revenues was met and the minimum Target Goals relating to gross profit and EBITDA were not met. Therefore the Company recorded compensation expense of $599,311 and a corresponding amount to Common Stock for the year ended June 30, 2007 related to the vesting of 101,578 shares for Fiscal Year 2007 Target Goals based on the grant date fair value of the Company's stock of $5.90. There is no effect on the number of issued and outstanding shares of Common Stock until shares are issued and thus none of the shares vested as of June 30, 2007 are included in issued and outstanding Common Stock as of June 30, 2007.

During fiscal year 2007, substantially all of the e-Port units sold consisted of units pertaining to the MasterCard PayPass seeding program with substantially reduced selling prices which resulted in reduced gross profit and EBITDA. Management's goal was to have the maximum number of units deployed in the field as quickly as possible. The Compensation Committee agreed with management that given the current stage of the Company's business, it was more beneficial to the Company to maximize the number of e-Ports in the field as soon as possible. As a result, on September 21, 2007, the Compensation Committee recommended to the Board of Directors that the selling price of all the e-Ports sold during the fiscal year be "normalized" to the current retail price. This normalization resulted in increased proforma revenues, gross profit and EBITDA for the e-Port units sold in the MasterCard PayPass seeding program. The Compensation Committee also recommended that the executive officers be given the option to elect to satisfy certain minimum statutory tax withholding obligations for the restricted stock bonuses previously awarded and issued to the executives under their employment agreements by reducing the number of Common Shares otherwise issuable to them under the Plan. The Board of Directors approved the recommendations of the Compensation Committee (unaudited).

As a result of the normalization, certain target hurdles were met resulting in the vesting of a total of 241,249 shares under the Plan for the fiscal year rather than a total of 101,578 shares prior to the normalization. Also, the value of the number of shares the executives may apply to tax withholding was in excess of the minimum statutory obligation and, as a result, the Plan is classified as a liability award rather than an equity award. As such, the Company reclassified the $599,311 related to the 101,578 shares that was previously recorded in Common Stock to a short-term share-based payment liability. As the price of the Company's shares was $8.45 on the date of the approval of the normalization, a charge of $1,180,220 was also recorded to compensation expense, related to the additional 139,671 additional shares, with a corresponding amount to the short-term share-based payment liability for a total share-based payment liability of $1,779,531 as of September 21, 2007. On September 28, 2007, as the Company's share price was $8.38, the total share-based payment liability related to fiscal year 2007 was $1,769,754 ($599,311 compensation expense in fiscal year 2007 and $1,170,443 in the three months ended September 30, 2007 (unaudited)). Of the 241,249 shares vested for fiscal year 2007, the Company issued 225,249 shares of Common Stock and the remaining 16,000 shares were redeemed by the executives to settle tax withholding obligations paid by the Company totaling $134,080 in connection with the restricted stock bonuses previously awarded and issued to them under their employment agreements. As a result of the fact that a portion of the remaining 225,249 shares are subject to redemption, the Company has recorded the entire fair value of these remaining shares as a short-term share-based payment liability as of September 30, 2007 totaling $1,635,674. The Company will continue to remeasure this share-based liability until final settlement with changes in the fair value being charged to compensation expense. Final settlement will occur upon the exercise or lapse of the redemption provision on December 30, 2007 and the fair value of the remaining shares will be charged to Common Stock (unaudited).

11. COMMON STOCK (CONTINUED)

In conjunction with the Plan award for fiscal year 2008, the Company recorded compensation expense of $320,988 and a corresponding amount to the short-term accrued shared-based payment liability for the three month period ended September 30, 2007 (unaudited). This amount was based on management's estimate of the probability of meeting the target goals and the fair value of the Company's stock of $8.38 at the end of the reporting period, September 28, 2007. Management will update this estimate and remeasure the short-term share-based payment liability at the end of each reporting period until settlement. The final measurement and charge to compensation expense will be determined on the date of settlement.

As of September 30, 2007, the Company had reserved shares of Common Stock for future issuance for the following (unaudited):

Exercise of Common Stock Options	162,625
Exercise of Common Stock Warrants	1,678,186
Conversions of Preferred Stock and cumulative Preferred Stock dividends	14,586
Issuance under 2006-B Common Stock Agreement	412,523
Issuance under 2007-A Stock Compensation Plan	79,987
Issuance under Long-Term Equity Incentive Program- Fiscal Year 2008 and 2009 (not vested)	634,866
Issuance under Chief Executive Officer's employment agreement upon the occurrence of a USA Transaction	140,000
Total shares reserved for future issuance	3,122,773

As of June 30, 2007, the Company had reserved shares of Common Stock for future issuance for the following:

Exercise of Common Stock Options	163,000
Exercise of Common Stock Warrants	1,704,175
Conversions of Preferred Stock and cumulative Preferred Stock dividends	14,195
Issuance under 2006-B Common Stock Agreement	86,908
Issuance under 2007-A Stock Compensation Plan	87,987
Issuance under Long-Term Equity Incentive Program- Fiscal Year 2007 (vested, but not issued)	101,578
Issuance under Long-Term Equity Incentive Program- Fiscal Years 2008 and 2009 (not vested)	634,866
Issuance under Chief Executive Officer's employment agreement upon the occurrence of a USA Transaction	140,000
Total shares reserved for future issuance	2,932,709

11. COMMON STOCK (CONTINUED)

A summary of the status of the Company’s nonvested common shares as of September 30, 2007 (unaudited) and June 30, 2007 and 2006, and changes during the years ended June 30, 2007 and 2006 and the three months ended September 30, 2007 (unaudited), is presented below:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at July 1, 2005	-	$ -
Granted	125,000	8.00
Vested	(41,667)	8.00
Nonvested at June 30, 2006	83,333	$ 8.00
Granted (LTIP)	952,298	5.90
Vested (Bonus)	(83,333)	8.00
Vested (LTIP)	(101,578)	5.90
Forfeited (LTIP)	(215,854)	5.90
Nonvested at June 30, 2007	634,866	$ 5.90
Reversal of forfeited shares due to normalization (LTIP)	139,671	5.90
Vested (LTIP)	(139,671)	5.90
Nonvested at September 30, 2007 (unaudited)	634,866	$ 5.90

12. COMMON STOCK WARRANTS AND OPTIONS

Common Stock Warrant activity for the years ended June 30, 2007, 2006 and 2005 and the three months ended September 30, 2007 (unaudited) was as follows:

	WARRANTS
Outstanding at June 30, 2004	334,571
Issued	233,333
Exercised	(109,942)
Cancelled	(136,642)
Outstanding at June 30, 2005	321,320
Issued	131,494
Exercised	(36,800)
Cancelled	(196,533)
Outstanding at June 30, 2006	219,481
Issued	1,544,804
Exercised	(43,552)
Cancelled	(16,558)
Outstanding at June 30, 2007	1,704,175
Exercised	(25,989)
Outstanding at September 30, 2007	1,678,186

12. COMMON STOCK WARRANTS AND OPTIONS (CONTINUED)

All Common Stock warrants outstanding as of September 30, 2007, June 30, 2007 and June 30, 2006 were exercisable and all Common Stock warrants outstanding as of June 30, 2007 were exercisable except for the 833,333 warrants expiring March 15, 2013 which were exercisable as of September 15, 2007. The following table shows exercise prices and expiration dates for warrants outstanding as of September 30, 2007 (unaudited):

WARRANTS OUTSTANDING	EXERCISE PRICE PER SHARE		EXPIRATION DATE
71,429	$	7	October 26, 2007
131,494	$	20	December 31, 2008
641,930	$	6.40	December 31, 2011
833,333	$	6.40	March 15, 2013
1,678,186			

The following table shows exercise prices and expiration dates for warrants outstanding as of June 30, 2007:

WARRANTS OUTSTANDING	EXERCISE PRICE PER SHARE		EXPIRATION DATE
71,429	$	7	October 26, 2007
131,494	$	20	December 31, 2008
667,919	$	6.40	December 31, 2011
833,333	$	6.40	March 15, 2013
1,704,175			

All Common Stock warrants outstanding as of June 30, 2006 were exercisable. The following table shows exercise prices and expiration dates for warrants outstanding as of June 30, 2006:

WARRANTS OUTSTANDING	EXERCISE PRICE PER SHARE		EXPIRATION DATE
750	$	12.50	June 30, 2006
71,429	$	7	October 26, 2007
131,494	$	20	December 31, 2008
12,000	$	91	August 29, 2010
3,779	$	100	April 24, 2011
29	$	103	April 30, 2011
219,481			

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12. COMMON STOCK WARRANTS AND OPTIONS (CONTINUED)

The following table shows exercise prices and expiration dates for warrants outstanding as of June 30, 2005:

WARRANTS OUTSTANDING	EXERCISE PRICE PER SHARE	EXPIRATION DATE
233,333	$ 15	December 31, 2005
750	$ 12.50	June 30, 2006
71,429	$ 7	October 26, 2007
12,000	$ 91	August 29, 2010
3,779	$ 100	April 24, 2011
29	$ 103	April 30, 2011
321,320		

In conjunction with the SAC agreement (Note 11), the Company issued warrants to purchase 833,333 shares of Common Stock and are exercisable at $6.40 per share. The warrants are exercisable at any time within six years following the six-month anniversary of the issuance of the warrants. Upon vesting, the warrants are exercisable to the extent that such exercise would not result in the beneficial ownership by SAC and its affiliates of more than 9.99% of the number of shares outstanding immediately after giving effect to the issuance of shares upon exercise of the warrants. The warrant also provides that if the Company would issue securities in the future at a purchase price that is less than the exercise price of the warrant, then the exercise price of the warrant would be reduced to such lower purchase price, provided, however, that such exercise price can never be lower than $5.90 which was the closing bid price of our shares on the day prior to the sale of our securities to SAC. The warrant also provides that in the event we issue securities at a purchase price less than the exercise price of the warrant, the number of shares issuable under the warrant shall be increased by that number of shares determined by multiplying the exercise price in effect immediately prior to such adjustment by the number of shares issuable under the warrant immediately prior to such adjustment and dividing the product thereof by the new exercise price of the warrant (which can never be less than $5.90). Under this formula, the maximum number shares would be issuable under the warrant would be 903,955. The warrant provides that no adjustments shall be made for any shares sold to Mr. Illes by the Company under the 2006-B Common Stock Agreement at any time prior to December 31, 2011.

In conjunction with the Blair Agreements (Note 11), the Company issued warrants to purchase 700,017 shares of Common Stock and are exercisable at $6.40 per share at any time prior to December 31, 2011. Of these warrants, 32,098 were exercised during the year ended June 30, 2007. Additionally, the Company issued Blair, the placement agent, warrants to purchase 11,454 shares of Common Stock and are exercisable at $6.60 per share at any time prior to December 31, 2011. All of these warrants were exercised during the year ended June 30, 2007.

In conjunction with the 2008-C Senior Note offering (Note 9), the Company issued warrants to purchase 54,494 shares of Common Stock and are exercisable at $20 per share at any time prior to December 31, 2008.

In conjunction with the 2010-B Senior Note offering (Note 9), the Company issued warrants to purchase 77,000 shares of Common Stock and are exercisable at $20 per share at any time prior to December 31, 2008.

In conjunction with the 2005-D Private Placement Offering (Note 11), the Company issued warrants to purchase 233,333 shares of Common Stock and are exercisable at $15 per share at any time prior to December 31, 2005. During October 2005, the Company approved a temporary reduction in the exercise price of the 2005-D Common Stock Warrants from $15 to $10 per share through November 30, 2005. The Company received $368,000 and issued 36,800 shares of Common Stock as a result of the exercise of the 2005-D Common Stock Warrants at $10 per share.

12. COMMON STOCK WARRANTS AND OPTIONS (CONTINUED)

Prior to June 30, 2004, the Company issued warrants to purchase approximately 37,000 shares of Common Stock to holders of the Senior Notes who elected to receive quarterly interest on their Notes in shares of Common Stock, in lieu of a cash payment of interest ("Original Interest Warrants"). These warrants were exercisable at $20 per share through August 30, 2004. In June 2004, the Company issued additional warrants to the Senior Note holders who elected to receive interest in shares of Common Stock ("Additional Interest Warrants"). One additional warrant was issued for each warrant previously issued with an exercise price of $20 per share through December 31, 2004. The Company reduced the exercise price of the Original Interest Warrants to $15 per share and extended their expiration through October 29, 2004. In addition, for each Original Interest Warrant exercised through October 4, 2004, the expiration date of one Additional Interest Warrant was extended to June 30, 2005 from December 31, 2004, and the exercise price was reduced to $15 per share through June 30, 2005. The Company also reduced the exercise price of the Additional Interest Warrants to $15 per share through November 30, 2004 and then retroactively to $10 per share through December 31, 2004. Investors who had previously exercised Original Interest Warrants and Additional Interest Warrants at $15 per share were refunded the equivalent of $5 per share in recognition of the reduction of the exercise price to $10 per share that occurred after the warrants were exercised. Such refunds amounted to $40,971. During the year ended June 30, 2005, Original Interest Warrants and Additional Interest Warrants were exercised to purchase 8,074 shares of Common Stock. Such exercises generated net proceeds of approximately $75,000, after considering the above-mentioned refund.

As of October 25, 2004, the Company reduced the exercise price of the Common Stock warrants issued as part of the 2004-A Private Placement Offering to $10 per share, from $20 per share, through November 30, 2004. On December 13, 2004, the exercise price of $10 per share was retroactively extended to December 31, 2004. During the year ended June 30, 2005, the Company received $765,833 upon the exercise of 76,583 of these warrants at an exercise price of $10 per share.

The Company's Board of Directors has granted options to employees and Board members 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 contracts under which the options were granted.

Common Stock Option activity during the years ended June 30, 2007, 2006 and 2005 and the three months ended September 30, 2007 (unaudited) was as follows:

	OPTIONS OUTSTANDING	EXERCISE PRICE PER SHARE	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at June 30, 2004	18,975	$ 16.50-$200	$ 23.80
Granted	3,000	$ 20	$ 20.00
Cancelled	(1,876)	$ 30	$ 30.00
Outstanding at June 30, 2005	20,099	$ 16.50-$200	$ 23.58
Granted	160,000	$ 7.50-$8	$ 7.52
Expired	(1,166)	$ 100-$200	$ 105.66
Outstanding at June 30, 2006	178,933	$ 7.50-$100	$ 8.68
Granted	--	--	--
Expired	(15,933)	$ 16.50-$100	$ 18.24
Outstanding at June 30, 2007	163,000	$ 7.50-$20	$ 7.75
Expired	(375)	$ $20	$ 20.00
Outstanding at September 30, 2007 (unaudited)	162,625	$ 7.50-$20	$ 7.75
Exercisable at June 30, 2007	117,667	$ 7.50-$20	$ 7.83
Exercisable at September 30, 2007 (unaudited)	117,292	$ 7.50-$20	$ 7.83

12. COMMON STOCK WARRANTS AND OPTIONS (CONTINUED)

The following table shows exercisable options, exercise prices, the weighted average remaining contractual life and the aggregate intrinsic value for options outstanding as of September 30, 2007 (unaudited).

OPTIONS OUTSTANDING	OPTIONS EXERCISABLE	EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE REMAINING LIFE OUTSTANDING	WEIGHTED AVERAGE CONTRACTUAL (YEARS)- EXERCISEABLE	INTRINSIC VALUE- OUTSTANDING	INTRINSIC VALUE- EXERCISABLE
154,000	111,667	$ 7.50	4.47	2.80	$ 135,520	$ 98,267
6,000	3,000	$ 8	5.22	1.52	$ 2,280	$ 1,140
2,625	2,625	$ 20	0.84	0.84	$ -	$ -
162,625	117,292		4.43	2.71	$ 137,800	$ 99,407

The following table shows exercisable options, exercise prices, the weighted average remaining contractual life and the aggregate intrinsic value for options outstanding as of June 30, 2007.

OPTIONS OUTSTANDING	OPTIONS EXERCISABLE	EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE REMAINING LIFE OUTSTANDING	WEIGHTED AVERAGE CONTRACTUAL (YEARS)- EXERCISEABLE	INTRINSIC VALUE- OUTSTANDING	INTRINSIC VALUE- EXERCISABLE
154,000	111,667	$ 7.50	4.72	2.99	$ 500,500	$ 362,918
6,000	3,000	$ 8	5.47	1.60	$ -	$ -
3,000	3,000	$ 20	0.95	0.95	$ -	$ -
163,000	117,667		4.68	2.90	$ 500,500	$ 362,918

The following table shows exercisable options, exercise prices, the weighted average remaining contractual life and the aggregate intrinsic value for options outstanding as of June 30, 2006.

OPTIONS OUTSTANDING	OPTIONS EXERCISABLE	EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE REMAINING LIFE OUTSTANDING	WEIGHTED AVERAGE CONTRACTUAL (YEARS)- EXERCISEABLE	INTRINSIC VALUE- OUTSTANDING	INTRINSIC VALUE- EXERCISABLE
154,000	69,334	$ 7.50	5.72	4.83	$ 30,800	$ 13,867
6,000	-	$ 8	6.47	0.00	$ -	$ -
14,658	14,658	$ 16.50	0.87	0.87	$ -	$ -
3,000	1,500	$ 20	1.95	0.40	$ -	$ -
1,125	1,125	$ 30	0.31	0.31	$ -	$ -
150	150	$ 100	0.96	0.96	$ -	$ -
178,933	86,767		5.25	4.02	$ 30,800	$ 13,867

Total expected compensation expense related to the vesting of options outstanding as of June 30, 2007 is $115,046 and is expected to be recognized over weighted-average period of 0.95 years. The intrinsic value of the non-vested options as of September 30, 2007 and June 30, 2007 was $38,393 (unaudited) and $145,832 respectively.

On April 21, 2006, the Board of Directors approved the grant of 12,000 Common Stock Options to each of the outside directors serving as of February 27, 2006 all with an exercise price of $7.50 per share and all exercisable at any time within five years following the date of vesting.

In conjunction with the signing of employment agreements on May 11, 2006, the Company granted Mr. Jensen, Mr. Herbert, and Mr. DeMedio, 75,000, 18,000 and 7,000 Common Stock Options, all with an exercise price of $7.50 per share and all exercisable at any time within five years following the date of vesting. The options vest as follows: one-third on May 11, 2006; one-third on June 30, 2007; and one-third on June 30, 2008.

12. COMMON STOCK WARRANTS AND OPTIONS (CONTINUED)

In conjunction with the appointment of Stephen McHugh to the Board of Directors on June 20, 2006, the Company granted Mr. McHugh 6,000 Common Stock Options with an exercise price of $8.00 per share. The options vest as follows: 3,000 on June 20, 2007 and 3,000 on June 20, 2008. The options are exercisable at any time within five years of vesting.

The fair value of the stock options granted on April 21 and May 11, 2006 was $4.83 and $5.51, respectively, and was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions.

Dividend yield	0%
Expected stock price volatility	0.823
Risk-free interest rate	4.0%
Expected life, in years	5

The fair value of the stock options granted on June 20, 2006 was $5.06 and was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions.

Dividend yield	0%
Expected stock price volatility	0.796
Risk-free interest rate	4.0%
Expected life, in years	5

During the year ended June 30, 2005, stock options were granted to one individual to purchase 3,000 shares of Common Stock of the Company at $20 per share and vest through April 30, 2007. The fair value of the stock options granted, $9.36, was estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions.

Dividend yield	0%
Expected stock price volatility	0.922
Risk-free interest rate	4.0%
Expected life, in years	2

The weighted-average grant-date fair value of stock options granted was $5.26 and $9.36 during the years ended June 30, 2006 and 2005, respectively. The total fair value of options vested during the years ended June 30, 2007, 2006, and 2005 and the three months ended September 30, 2007 was $255,815, $371,050, $18,000 and $0 (unaudited), respectively.

13. RETIREMENT PLAN

The Company's Savings and Retirement Plan (the "Plan") allows employees who have attained the age of 21 and have completed six months of service to make voluntary contributions up to a maximum of 15% of their annual compensation, as defined in the Plan. Through June 30, 2000, the Plan did not provide for any matching contribution by the Company, however, starting at the beginning of fiscal year 2001, the Company amended the Plan to include a Company matching contribution up to 10% of an employee's compensation. Effective January 1, 2003, the matching contribution changed to a dollar-for-dollar matching contribution on salary deferrals up to 3% of the employee's compensation then a fifty-cents on the dollar matching contribution on salary deferrals from 3% to 5%. The Company's contribution for the years ended June 30, 2007, 2006 and 2005 and the three months ended September 30, 2007 and 2006 was approximately $143,000, $114,000, $96,000, $38,000 (unaudited) and $30,000 (unaudited), respectively.

14. COMMITMENTS AND CONTINGENCIES

The Company conducts its operations from various facilities under operating leases. In March 2003, the Company entered into a lease for 12,864 square feet of space located in Malvern, Pennsylvania for its principal executive office and used for general administrative functions, sales activities, and product development. The lease term extends through December 31, 2008 and provides for escalating rent payments and a period of free rent prior to the commencement of the monthly lease payment in January 2004 of approximately $25,000 per month. During April 2005, the Company entered into an amendment to the lease covering 4,385 additional square feet that is contiguous to its existing space. The lease term was extended to December 31, 2010, and the amendment provides for a period of free rent for the additional space with rent of approximately $31,000 per month commencing in September 2005 with escalating rental payments thereafter.

The Company also leases 9,084 square feet of space, located in Malvern, Pennsylvania, on a month-to-month basis for a monthly payment of approximately $8,000. During January 2007, the Company entered into an amendment to the lease covering 4,293 additional square feet that is contiguous to its existing space. The lease term was extended to December 31, 2010, and the amendment provides for a rent of $13,377 per month with escalating rental payments through the remainder of the lease. During prior years, the facility was solely used to warehouse product. All product warehousing, shipping and customer support was transferred to this location from the executive office location during the first quarter of fiscal year 2005.

In connection with the acquisition of the energy conservation product line in July 2003 from Bayview Technology Group, LLC, the Company assumed leases for 6,384 square feet of space located in Denver, Colorado used for administrative functions, sales activities and product warehousing associated with our energy management products. The lease terms extended through June 30, 2005 and provided for escalating rent payments ending at $8,200 per month. The lease provided for additional rent for a prorated share of operating costs for the entire facility.

In December 2004, the Company entered into a lease for 2,837 square feet of space located in Denver, Colorado to replace the above-mentioned lease used for administrative functions, sales activities and product warehousing associated with our energy management products. The lease terms extend through May 31, 2009 and provide for five months of free rent followed by rent payments of $1,200 per month and escalating payments beginning on June 1, 2006. The lease provides for additional rent for a prorated share of operating costs for the entire facility.

Rent expense under operating leases was approximately $492,000, $489,000, $447,000, $156,000 (unaudited) and $131,000 (unaudited) during the years ended June 30, 2007, 2006 and 2005 and the three months ended September 30, 2007 and 2006, respectively. Future minimum lease payments subsequent to June 30, 2007 under capital leases and noncancellable operating leases are as follows:

	CAPITAL LEASES	OPERATING LEASES
2008	$ 362,280	$ 448,000
2009	206,398	455,000
2010	130,577	223,000
2011	35,578	3,000
2012	26,684	--
Total minimum lease payments	$ 761,517	$ 1,129,000
Less amount representing interest	84,042	
Present value of net minimum lease payments	677,475	
Less current obligations under capital leases	311,420	
Obligations under capital leases, less current portion	$ 366,055	

In September 2007 (unaudited), and provided that the manufacturer can produce a lower cost e-Port for the Company, the Company had committed to purchase approximately $3,600,000 of inventory from a third party contract manufacturer over an eighteen month period.

In conjunction with the Program (Note 11), during March 2007, each of Mr. Jensen, Mr. Herbert, and Mr. DeMedio signed amendments to their Employment and Non-Competition Agreements.

14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

On May 11, 2006, the Company and Mr. Jensen entered into an Amended and Restated Employment Agreement pursuant to which the term of Mr. Jensen's employment with the Company was extended to June 30, 2009. Effective May 11, 2006, Mr. Jensen's base salary was increased to $325,000 per annum. Mr. Jensen's base salary had not been increased since January 1, 2004. The Agreement requires Mr. Jensen to devote his full time and attention to the business and affairs of the Company, and obligates him not to engage in any investments or activities which would compete with the Company during the term of the Agreement and for a period of one year thereafter. Mr. Jensen was granted the right (exercisable at any time prior to the 60th day following the commencement of each fiscal year) to elect to have one-half of his base salary for each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009 paid in shares of Common Stock rather than cash. Mr. Jensen has elected to receive shares in lieu of cash for one-half of his base salary for the fiscal year ending June 30, 2007. As a result of such election, 22,080 shares were issued to him which will vest as follows: 5,520 on July 1, 2006; 5,520 on October 1, 2006; 5,520 on January 1, 2007; and 5,520 on April 1, 2007. Mr. Jensen was also granted 75,000 shares of Common Stock and an additional amount of options to purchase up to 75,000 shares of Common Stock at $7.50 per share. The 75,000 shares of Common Stock vested as follows: 25,000 on June 1, 2006; 25,000 on January 1, 2007; and 25,000 on June 1, 2007. The options vest as follows: 25,000 on May 11, 2006; 25,000 on June 30, 2007; and 25,000 on June 30, 2008. The options may be exercised at any time within 5 years of vesting. The Company recorded a non-cash compensation charge of $264,000 and $172,127 related to the grant of restricted Common Stock and Common Stock Options, respectively, during the fiscal year ended June 30, 2006. All of the shares granted to or to be issued to Mr. Jensen under his employment agreement, and the shares underlying the options granted to Mr. Jensen, are not and will not be registered under the Securities Act of 1933, as amended, and constitute restricted securities as such term is defined in Rule 144 promulgated under the 1933 Act.

As previously provided in his employment agreement, upon the occurrence of a "USA Transaction" (as defined below), the Company will issue to Mr. Jensen 140,000 shares of Common Stock subject to adjustment for stock splits or combinations ("Jensen Shares"). Mr. Jensen is not required to pay any additional consideration for the Jensen Shares. At the time of any USA Transaction, all of the Jensen Shares are automatically deemed to be issued and outstanding immediately prior to any USA Transaction, and are entitled to be treated as any other issued and outstanding shares of Common Stock in connection with such USA Transaction.

The term USA Transaction is defined as (i) the acquisition of fifty-one percent or more of the then outstanding voting securities entitled to vote generally in the election of Directors of the Company by any person, entity or group, or (ii) the approval by the shareholders of the Company of a reorganization, merger, consolidation, liquidation, or dissolution of the Company, or the sale, transfer, lease or other disposition of all or substantially all of the assets of the Company. The Jensen Shares are irrevocable and fully vested, have no expiration date, and will not be affected by the termination of Mr. Jensen's employment with the Company for any reason whatsoever. If a USA Transaction shall occur at a time when there are not a sufficient number of authorized but unissued shares of Common Stock, then the Company shall as a condition of such USA Transaction promptly take any and all appropriate action to make available a sufficient number of shares of Common Stock. In the alternative, the Company may structure the USA Transaction so that Mr. Jensen would receive the same amount and type of consideration in connection with the USA Transaction as any other holder of Common Stock.

On May 11, 2006, the Company and Mr. Herbert entered into an Amended and Restated Employment Agreement pursuant to which the term of Mr. Herbert's employment with the Company was extended to June 30, 2009. Effective May 11, 2006, Mr. Herbert's base salary was increased to $285,000 per annum. Mr. Herbert's base salary had not been increased since January 1, 2004. The Agreement requires Mr. Herbert to devote his full time and attention to the business and affairs of the Company and obligates him not to engage in any investments or activities which would

14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

compete with the Company during the term of the agreement and for a period of one year thereafter. In the event that a USA Transaction (as defined in Mr. Jensen's employment agreement) shall occur, then Mr. Herbert has the right to terminate his agreement upon 30 days notice to USA. Mr. Herbert was granted the right to elect to have one-half of his base salary for each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009 paid in shares of Common Stock rather than cash. Mr. Herbert was also granted 50,000 shares of Common Stock and an additional amount of options to purchase up to 18,000 shares of Common Stock at $7.50 per share. The 50,000 shares of Common Stock vested as follows: 16,667 on June 1, 2006; 16,667 on January 1, 2007; and 16,666 on June 1, 2007. The options vest as follows: 6,000 on May 11, 2006; 6,000 on June 30, 2007; and 6,000 on June 30, 2008. The options may be exercised at any time within 5 years of vesting. The Company recorded a non-cash compensation charge of $176,003 and $41,310 related to the grant of restricted Common Stock and Common Stock Options, respectively, during the fiscal year ended June 30, 2006. All of the shares granted to or to be issued to Mr. Herbert under his employment agreement, and the shares underlying the options granted to Mr. Herbert, are not and will not be registered under the Securities Act of 1933, as amended, and constitute restricted securities as such term is defined in Rule 144 promulgated under the 1933 Act.

On May 11, 2006, the Company and Mr. DeMedio entered into an amendment to his Employment Agreement pursuant to which the term of Mr. DeMedio’s employment with the Company was extended to June 30, 2008. Effective May 11, 2006, Mr. DeMedio’s base salary was increased to $165,000 per annum. Mr. DeMedio was granted the right to elect to have one-half of his base salary for each of the fiscal years ending June 30, 2007, and June 30, 2008 paid in shares of Common Stock rather than cash. Mr. DeMedio was also granted options to purchase up to 7,000 shares of Common Stock at $7.50 per share. The options vest as follows: 2,334 on May 11, 2006; 2,333 on June 30, 2007; and 2,333 on June 30, 2008. The options may be exercised at any time within 5 years of vesting. The Company recorded a non-cash compensation charge of $16,068 related to the grant of restricted Common Stock Options during the fiscal year ended June 30, 2006. All of the shares underlying the options granted to Mr. DeMedio under his employment agreement are not and will not be registered under the Securities Act of 1933, as amended, and constitute restricted securities as such term is defined in Rule 144 promulgated under the 1933 Act.

Various legal actions and claims occurring in the normal course of business are pending or may be instituted or asserted in the future against the Company. The Company does not believe that the resolution of these matters will have a material effect on the financial position or results of operations of the Company.

In February 2005, a Complaint was filed against the Company by Swartz Private Equity, LLC (“Swartz”) alleging that the Company breached various agreements entered into with Swartz in August and September 2000 in connection with the so-called equity line of credit provided by Swartz to the Company. The Complaint requests money damages of $4,350,381 representing the alleged value of the warrants currently held by or claimed to be due to Swartz, money damages of $196,953 representing a termination fee allegedly due in connection with the termination of the agreements, and unspecified money damages relating to the alleged breach of the rights of first refusal. The Company’s response to the Complaint denied any liability to Swartz and asserted various counterclaims against Swartz that seek money damages and other affirmative relief against Swartz. The Company’s response, among other things, states that the entire transaction is void and unenforceable because Swartz had failed to register as a broker-dealer under applicable Federal and state securities laws as required in order for Swartz to be engaged in the business of providing equity line products. On September 20, 2006, the parties agreed to fully settle this litigation. In this regard, the Company agreed to issue to Swartz 33,184 shares of our Common Stock. We also agreed to honor the cashless exercise of warrants by Swartz in 2003 for 6,816 shares of Common Stock. We had previously disputed that Swartz had validly exercised those warrants. We have granted to Swartz certain registration rights in connection with the 33,184 shares. The settlement agreement and release implementing the settlement was signed by the parties on October 12, 2006. The Company had recorded a liability of $270,000 as of June 30, 2006 to accrue for the value of the 40,000 shares of Common Stock that were issued in October 2006 under the settlement agreement.

The Company also issued 2,536 shares of Common Stock to a former employee totaling $18,000 relating to the settlement of litigation.

15. SUBSEQUENT EVENTS (UNAUDITED)

From October 1, 2007 through November 2, 2007, the Company issued an additional 195,360 shares of Common Stock under the 2006-B Common Stock Agreement for total gross proceeds of $1,222,500.

On October 17, 2007, the Company entered into a securities purchase agreement (collectively, the “Securities Purchase Agreement”) with institutional investors (“Buyers”). Pursuant to the Securities Purchase Agreement, the Company sold to the Buyers a total of 2,142,871 shares of the Company’s Common Stock (“Shares”) at a price of $7.00 per Share, for gross proceeds of $15,000,097. All of the Buyers qualified as accredited investors as such term is defined in Rule 501 under the Act. The Shares issued by the Company to the Buyers have not been registered under the Act. The offer and sale of the Shares by the Company to the Buyers was exempt from the registration requirements of the Act pursuant to Section 4(2) thereof and Rule 506 of Regulation D promulgated thereunder. William Blair & Co., LLC (“Blair”) acted as the exclusive placement agent for the private placement. As compensation for its services, the Company paid Blair a fee equal to eight percent of the total consideration received by the Company as a result of the offering. The fee is comprised of seven percent in cash and one percent in the form of five-year warrants for the purchase of the Company’s Common Stock at $7.70 per share. Pursuant to the Registration Rights Agreement entered into between the Company and each Buyer, the Company agreed to file a registration statement with the SEC covering the resale of the Shares within thirty days.

The Registration Rights Agreement provides that if the registration statement is not declared effective within ninety days from the date of the Securities Purchase Agreement (and provided that the registration is not subject to a full review by the SEC), the Company is required to pay to the Buyers one percent of the aggregate subscription price paid by the Buyers for every thirty days beyond such ninety day period that the registration statement is not effective. The maximum aggregate penalty payable to the Buyers is twelve percent of the aggregate subscription price paid by the Buyers. In accordance with FSP EITF 00-19-2, the Company determined that the likelihood of being required to remit any payments was not probable and thus did not record a liability related to this contingent payment arrangement.

PART II INFORMATION NOT REQUIRED IN THE PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

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

Securities and Exchange Commission - Registration Fee	$	512.66
Printing and Engraving Expenses	$	4,487.34
Accounting Fees and Expenses	$	15,000.00
Legal Fees and Expenses	$	15,000.00
Total	$	35,000.00

ITEM 14. INDEMNIFICATION OF OFFICERS AND DIRECTORS.

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

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

In addition, the Company has entered into separate indemnification agreements with its Directors and officers which require the Company to indemnify each of such officers and directors to the fullest extent permitted by the law of the Commonwealth of Pennsylvania against certain liabilities which may arise by reason of their status as directors and officers. The indemnification agreements also provide that the Company must advance all expenses incurred by the indemnified person in connection with any proceeding, provided the indemnified person undertakes to repay the advanced amounts if it is determined ultimately that the indemnified person is not entitled to be indemnified.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

During the three years immediately preceding the date of the filing of this registration statement, the following securities were issued by USA without registration under the Securities Act of 1933, as amended ("Act"):

PRIVATE PLACEMENTS

From November 3, 2004 through February 14, 2005, the Company sold $1,550,789 of senior notes convertible into Common Shares at $10 per share and maturing on June 30, 2007. Interest is payable quarterly at a rate of 10% per annum. The securities were offered and sold under the exemption from registration set forth in Rule 506 promulgated under Section 4(2) of the Act. All of the purchasers of the notes were accredited investors, were either pre-existing security holders or business associates and there was no general solicitation or advertising. We have agreed to use our best efforts to have the shares underlying the senior notes registered for resale under the Act through June 30, 2007.

In March 2005, the Company exchanged $1,755,000 of principal amount 2005-B 10% Senior Notes for a like principal amount of 2005-C 10% Convertible Senior Notes (“2010 Senior Notes”). The 2010 Senior Notes are convertible into Common Shares at $10 per share and due December 31, 2010. There are an aggregate of 175,500 shares underlying these senior notes. Interest is payable quarterly at a rate of 10% per annum. We have agreed to register the shares underlying the 2010 Senior Notes under the Act for resale through April 30, 2006. The exchange of the shares was exempt from registration under Section 3(a)(9) of the Act. All of the investors receiving 2010 Senior Notes are existing security holders. No commission or remuneration was paid or given directly or indirectly for soliciting the exchange.

During March and April 2005, the Company sold 233,333 shares of Common Stock at $15 per share for an aggregate of $3,500,000 (“2005-D Private Placement Offering”). For each share purchased, the Company granted a warrant to purchase one share of Common Stock exercisable at $15 per share at anytime prior to December 31, 2005. The Company issued warrants to purchase a total of 233,333 shares. To date, none of the warrants have been exercised. We have agreed to register the shares and the shares underlying the warrants under the Act for resale through December 31, 2006. The offer and sales of the shares was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act. All of the investors were accredited investors and either pre-existing security holders or business associates. The offer and sale thereof did not involve any general advertising or solicitation and the securities contained appropriate restrictive legends under the Act.

On April 4, 2005, the Company and Steve Illes entered into a new Common Stock Purchase Agreement (“2005 Commmon Stock Ageement”). Pursuant to the 2005 Common Stock Agreement, Mr. Illes agreed to purchase shares of the Company’s Common Stock, provided that the aggregate purchase price does not exceed $10,000,000. Under the 2005 Common Stock Agreement, the Company has the right at any time to require Mr. Illes to purchase Common Stock from the Company at the lower of: (i) $30 per share; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by the Company to Mr. Illes of notice of his obligation to purchase. The Company can require Mr. Illes to purchase shares under the Common Stock Agreement only if the shares have been registered by the Company for resale under the Act. During any calendar month, Mr. Illes cannot be required by the Company to purchase Common Stock for an aggregate purchase price in excess of $800,000. The Company issued 5,000 shares of Common Stock to Mr. Illes as a due diligence/commitment fee in connection with the 2005 Common Stock Agreement. The 2005 Common Stock Agreement terminates August 11, 2007. We have agreed to register for resale the shares purchased by Mr. Illes under the agreement until May 13, 2007. The securities offered and to be sold to Mr. Illes are exempt from registration as set forth under Rule 506 promulgated under the Act. Mr. Illes is an existing shareholder and an accredited investor, and there was no general solicitation or advertising.

During October and November 2005, the Company sold $544,945 principal amount of 2005-G Convertible Senior Notes due December 31, 2008 to six investors. These notes earn interest at 10% per annum, payable quarterly, and are convertible into Common Shares at $10 per share at any time prior to maturity. The offering was made to the holders of the 2005-D Common Stock Warrants. The 2005-D Warrants were exercisable at $10 per share through November 30, 2005, and at $15 through December 31, 2005. Each holder of the 2005–D Common Stock Warrants was entitled to purchase the principal amount of the 2005–G Senior Notes equal to the number of 2005-D Warrants held multiplied by $10. Upon any investment in the offering, the corresponding number of 2005-D Warrants were cancelled. There are 54,494 shares underlying these 2005-G senior notes. For each $10,000 of senior notes purchased, the investor also received a purchase right to purchase up to 1,000 shares at $20 per share at anytime prior to December 31, 2008. The purchase rights could only be exercised if the shares issuable upon the exercise of the purchase rights are made available through the prepayment by the Company of outstanding convertible senior notes that are convertible at $20 per share. The Company issued purchase rights to acquire 54,494 shares. During January 2006, the holder of each purchase right agreed to exchange the purchase rights for warrants to purchase shares at $20 at anytime prior to December 31, 2008. Pursuant thereto, warrants were issued for an aggregate of 54,494 shares. We have agreed to register the shares underlying the 2005-G Senior Notes and the shares underlying the warrants under the Act for resale, and to keep the registration statement current and effective through November 30, 2006. The offer and sale of the 2005-G Senior Notes and purchase rights was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act. All of the investors were accredited investors. The offer and sale thereof did not involve any general advertising or solicitation and the securities contained appropriate restrictive legends under the Act. The issuance by us of the warrants was exempt from registration under Section 3(a)(9) of the Act. All of the investors were existing holders of the purchase rights. No commission or remuneration was paid or given directly or indirectly for soliciting the exchange.

On December 13, 2005, the Company entered into a Stock Purchase Agreement with Wellington Management Company, LLP, a large Boston-based institutional investor, on behalf of certain of its clients (“Wellington”). Pursuant thereto, the Company sold to Wellington 400,000 shares of Common Stock for $10 per share for an aggregate of $4,000,000. The offer and sale of the shares was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act. As investment manager, Wellington has shared dispositive and shared voting power over the shares. All of these clients are accredited investors. We have agreed to register the shares for resale under the Act for a period of one year. The Stock Purchase Agreement provides that if the registration statement is not declared effective by the SEC within 60 days from the date of the Stock Purchase Agreement, then the Company will pay to Wellington as liquidated damages two percent of the purchase price for the shares for each month beyond 60 days that the registration statement is not effective. As a condition of its investment, Wellington required the Company to approve and call a special meeting of its shareholders to consider approval of a 1-to-100 reverse stock split of its Common Stock.

In October and November, 2005, the Company offered for sale up to $1,000,000 of principal amount of 10% Bridge Notes due January 6, 2006. Interest accrued on the Bridge Notes at the rate of 10% per annum from and after the date of issuance with all accrued and unpaid interest paid on January 6, 2006. The Company sold $770,000 Bridge Notes to 8 investors. On January 6, 2006, the Bridge Notes were automatically exchanged for a like principal amount of new 2006-A Convertible Senior Notes due December 31, 2010. The 2006-A Notes bear interest at 10% and are convertible at any time prior to maturity at $10 per share. For each $10,000 of 2006-A Convertible Senior Notes received in exchange for the Bridge Notes, the Company also issued purchase rights enabling the holder to purchase up to 1,000 shares of Common Stock at $20 per share at anytime prior to December 31, 2008. The purchase rights could only be exercised if the shares issuable upon the exercise of the purchase rights are made available through the prepayment by the Company of outstanding convertible senior notes that are convertible at $20 per share. The Company issued purchase rights to acquire 77,000 shares. During January 2006, the holder of each purchase right agreed to exchange the purchase right for a warrant to purchase one share at $20 at anytime prior to December 31, 2008. Pursuant thereto, warrants were issued for an aggregate of 77,700 shares. The offer and sale of the Bridge Notes was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act. All of the investors were accredited investors. The offer and sale thereof did not involve any general advertising or solicitation and the securities contained appropriate restrictive legends under the Act. The issuance by us of the 2006-A Senor Notes and purchase rights in exchange for the Bridge Notes, and the warrants in exchange for the purchase rights was exempt from registration under Section 3(a)(9) of the Act. All investors were existing security holders of the Company. No commission or remuneration was paid or given directly or indirectly for soliciting the exchange. We have agreed to register the shares underlying the 2006-A Senior Notes and the shares underlying the warrants under the Act for resale, and to keep the registration statement current and effective through November 30, 2006.

On January 9, 2006, the Company entered into a Stock Purchase Agreement with Rationalwave On Shore Equity Fund, L.P. (“Rationalwave”), an accredited investor. Pursuant thereto, the Company sold to Rationalwave 40,000 shares of Common Stock for $10 per share for an aggregate of $400,000. The offer and sale of the shares was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act. We have agreed to register the shares for resale under the Act through January 9, 2007.

On February 17, 2006, the Company and Steve Illes entered into a Common Stock Purchase Agreement ("2006 Commmon Stock Ageement"). Pursuant to the 2006 Common Stock Agreement, Mr. Illes agreed to purchase shares of the Company's Common Stock, provided that the aggregate purchase price does not exceed $20,000,000. Under the 2006 Common Stock Agreement, the Company has the right at any time to require Mr. Illes to purchase Common Stock from the Company at the lower of: (i) $30.00 per share; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by the Company to Mr. Illes of notice of his obligation to purchase. The Company can require Mr. Illes to purchase shares under the Common Stock Agreement only if the shares have been registered by the Company for resale under the Act. During any calendar month, Mr. Illes cannot be required by the Company to purchase Common Stock for an aggregate purchase price in excess of $800,000. The 2006 Common Stock Agreement terminates June 30, 2009. We have agreed to register for resale the shares purchased by Mr. Illes under the agreement for a two year period. The securities offered and to be sold to Mr. Illes are exempt from registration as set forth under Rule 506 promulgated under the Act. Mr. Illes is an existing shareholder and an accredited investor, and there was no general solicitation or advertising. The 2006 Common Stock Agreement replaces the April 2005 stock purchase agreement between Mr. Illes and the Company, and provides that no further shares may be registered under that agreement.

Pursuant to the Employment Agreement dated May 11, 2006 between Mr. Jensen and the Company, the Company agreed to issue to Mr. Jensen an aggregate of 75,000 shares of Common Stock. These shares vest as follows: 25,000 on June 1, 2006; 25,000 on January 1, 2007; and 25,000 on June 1, 2007. Pursuant to his Employment Agreement, Mr. Jensen also elected to have fifty percent of his base salary for the fiscal year ending June 30, 2007 paid through the issuance to him of 22,080 shares of Common Stock in lieu of cash. These shares vest as follows: 5,520 shares on July 1, 2006; 5,520 shares on October 1, 2006; 5,520 shares on January 1, 2007; and 5,520 shares on April 1, 2007. The offer and sale of the shares to Mr. Jensen were exempt from registration under Section 4(2) of the Act.

Pursuant to the Employment Agreement dated May 11, 2006 between Mr. Herbert and the Company, the Company agreed to issue to Mr. Herbert an aggregate of 50,000 shares of Common Stock. These shares vest as follows: 16,667 on June 1, 2006; 16,667 on January 1, 2007; and 16,666 on June 1, 2007. The offer and sale of the shares to Mr. Herbert were exempt from registration under Section 4(2) of the Act.

On September 25, 2006, the Company and Steve Illes entered into the 2006-B Common Stock Purchase Agreement. Pursuant to the 2006-B Common Stock Agreement, Mr. Illes agreed to purchase shares of the Company's Common Stock, provided that the aggregate purchase price does not exceed $15,000,000. Under the 2006-B Common Stock Agreement, the Company has the right at any time to require Mr. Illes to purchase Common Stock from the Company at the lower of: (i) $30.00 per share; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by the Company to Mr. Illes of notice of his obligation to purchase. The Company can require Mr. Illes to purchase shares under the 2006-B Common Stock Agreement only if the shares have been registered by the Company for resale under the Act. During any calendar month, Mr. Illes cannot be required by the Company to purchase Common Stock for an aggregate purchase price in excess of $800,000. The 2006-B Common Stock Agreement terminates August 30, 2009. We have agreed to register for resale the shares purchased by Mr. Illes under the agreement for a two year period. The securities offered and to be sold to Mr. Illes are exempt from registration as set forth under Rule 506 promulgated under the Act. Mr. Illes is an existing shareholder and an accredited investor, and there was no general solicitation or advertising. The 2006-B Common Stock Purchase Agreement replaces the February 2006 stock purchase agreement between Mr. Illes and the Company, and provides that no further shares may be registered under that agreement.

In September 2006, the Company agreed to settle a legal action brought against the Company by Erica Bender, a former employee. As part of the settlement, the Company issued to her 2,536 shares valued at $7.10 per share. The offer and sale of the shares to Bender were exempt from registration under Section 4(2) of the Act.

In September 2006, the Company settled its pending litigation with Swartz Private Equity, LLC. In full settlement of the litigation, the Company issued to Swartz an aggregate of 40,000 shares of Common Stock. Of these shares, 6,816 shares were attributable to the cashless exercise by Swartz in May and June 2003 of warrants, and the balance of 33,184 shares are newly issued shares. Under the settlement agreement, the Company has agreed to register for resale the 33,184 shares through October 12, 2007. The issuance of the shares to Swartz by the Company was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act.

During December 2006, the Company sold 1,400,000 shares of Common Stock for $6.00 per share for an aggregate of $8,400,000 to 78 investors. For each share purchased in the offering, the investor received a warrant to purchase one-half of a share. Pursuant to the offering, warrants to purchase an aggregate of 700,017 shares were issued. The warrants are exercisable at any time through December 31, 2011 at $6.40 per share. The offer and sale of the shares and the warrants was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act. All of these investors are accredited investors. We have agreed to register the shares and the shares underlying the warrants for resale under the Act through December 14, 2007. The Stock Purchase Agreements entered into with the investors provide that if the registration statement is not declared effective by the SEC within 90 days from the date of the Stock Purchase Agreements, or by March 14, 2007, then the Company will pay to the investors as liquidated damages one percent of the purchase price for the shares for each month beyond 90 days that the registration statement is not effective with the maximum damages not to exceed 12% of the purchase price for the shares.

In connection with the above private placement offering, William Blair & Company, LLC, acted as exclusive placement agent. As compensation for its services, Blair received cash compensation of $529,200 and warrants to purchase up to 11,454 shares at $6.60 per share at any time through December 31, 2011. Blair also received expense reimbursement from us of $12,576.08. We have agreed to register the shares underlying the warrants for resale under the Act through December 14, 2007. The offer and sale of the warrants was exempt from registration under Section 4(2) of the Act. The investor is an accredited investor. The offer and sale thereof did not involve any general advertising or solicitation and the securities contained appropriate restrictive legends under the Act.

On March 14, 2007, the Company entered into a Securities Purchase Agreement with S.A.C. Capital Associates, LLC (the “Buyer”). Pursuant thereto, the Company sold to the Buyer 1,666,667 shares of the Company’s Common Stock at a price of $6.00 per share for an aggregate purchase price of $10,000,002. The Company also issued warrants to the Buyer to purchase up to 833,333 shares of Common Stock at an exercise price of $6.40 per share. The warrants are exercisable at any time within six years following the six-month anniversary of the issuance of the warrants. The warrant provides that if we would issue securities in the future at a purchase price that is less than the exercise price of the warrant, then the exercise price of the warrant would be reduced to such lower purchase price, provided, however, that such exercise price can never be lower than $5.90 which was the closing bid price of our shares on the day prior to the sale of our securities to the selling shareholder. The warrant also provides that in the event we issue securities at a purchase price less than the exercise price of the warrant, the number of shares issuable under the warrant shall be increased by that number of shares determined by multiplying the exercise price in effect immediately prior to such adjustment by the number of shares issuable under the warrant immediately prior to such adjustment and dividing the product thereof by the new exercise price of the warrant (which can never be less than $5.90). Under this formula, the maximum number shares would be issuable under the warrant would be 903,955.There were no commissions or placement agent fees paid by the Company in connection with this offering. The Buyer is an accredited investor and the offer and sale of the shares and the warrants was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act. The Company has agreed to register the shares and the shares underlying the warrant for resale under the Act until the earlier of (i) the date as of which the Buyer may sell all of the securities covered by such Registration Statement without restriction pursuant to Rule 144(k) promulgated under the 1933 Act, or (ii) the date on which the Buyer shall have sold all of the securities covered by such Registration Statement. In the event that the registration statement is not declared effective within (i) ninety calendar days after March 14, 2007, in the event that the registration statement is not subject to a full review by the SEC, or (ii) one-hundred and twenty calendar days after March 14, 2007, in the event that the registration statement is subject to a full review by the SEC, then the Company has agreed to pay to the Buyer a cash payment equal to one percent (1%) of the aggregate subscription price for each thirty day period beyond such date that the registration statement has not been declared effective. The maximum aggregate amount payable to the Buyer is twelve percent (12%) of the aggregate subscription price.

On October 17, 2007, the Company sold 2,142,871 shares of Common Stock for $7.00 per share for an aggregate of $15,000,097 to 37 investors pursuant to a Securities Purchase Agreement entered into with the investors. The offer and sale of the shares was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act. All of these investors are accredited investors. We have agreed to register the shares for resale under the Act through October 17, 2009. The Registration Rights Agreement entered into with the investors provides that if the registration statement is not declared effective by the SEC within 90 days from the date of the Stock Purchase Agreements, or by January 15, 2008, then the Company will pay to the investors as liquidated damages 1% of the purchase price for the shares for each month beyond 90 days that the registration statement is not effective with the maximum damages not to exceed 12% of the purchase price for the shares.

In connection with the above private placement offering, William Blair & Company, LLC, acted as exclusive placement agent. As compensation for its services, Blair received cash compensation of $945,000.00 and warrants to purchase up to 17,532 shares at $7.70 per share at any time through October 17, 2012. As of the date of this prospectus, none of the warrants have been exercised. Blair also received an expense reimbursement from us of $7,418.44. We have agreed to register the shares underlying the warrants for resale under the Act through October 17, 2009. The offer and sale of the warrants was exempt from registration under Section 4(2) of the Act. The investor is an accredited investor. The offer and sale thereof did not involve any general advertising or solicitation and the securities contained appropriate restrictive legends under the Act.

During February 2007, the Company adopted the Long-Term Equity Incentive Program covering the Company's executive officers – Messrs. Jensen, Herbert and DeMedio. Under the Plan, each executive officer will be awarded common stock of the Company in the event the Company achieves target goals relating to each of revenues, gross profit and EBITDA during each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009. For the 2007 fiscal year, a higher than target revenue hurdle was met (110%), and lower than target hurdles for each of gross profit (85%) and EBITDA (85%) were also met, resulting in the issuance to the executive officers a total of 225,249 shares under the Plan for the fiscal year. The specific allocation of the shares among the executive officers is as follows: Mr. Jensen - 160,041 shares; Mr. Herbert - 44,628 shares; and Mr. DeMedio - 20,580 shares. The offer and sale of these shares was exempt from registration under Section 4(2) of the Act. In October 2007, the Company granted to the executives, standard piggyback registration rights in connection with these shares for a period of five years after vesting.

During September 2007, the Company granted to Bruce Shirey in connection with the commencement of his employment with the Company as Vice President- e-Port Connect Services, 6,000 shares which vest as follows: 2,000 on March 1, 2008; 2,000 on September 1, 2008; and 2,000 on September 1, 2009. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act.

During September 2007, the Company granted to Len Crosson in connection with the commencement of his employment with the Company as Vice President-Global Sales & Business Development, 6,000 shares which vest as follows: 2,000 on April 1, 2008; 2,000 on August 1, 2008; and 2,000 on August 1, 2009. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act.

STOCK OPTIONS

On April 21, 2006, the Board of Directors approved the grant of 12,000 Common Stock Options to each of the outside directors serving as of February 27, 2006 and 6,000 Common Stock Options to Mr. Passner, a new director as of April 12, 2006, all with an exercise price of $7.50 per share and all exercisable at any time within five years following the date of vesting. The options granted to Mr. Sellers and Mr. Van Allen are fully vested. Of the options granted to Mr. Katz and Mr. Lurio, 6,000 vest immediately, 3,000 vest on April 1, 2007, and 3,000 vest on April 1, 2008. Of the options granted to Mr. Passner, 3,000 vest on April 1, 2007, and 3,000 vest on April 1, 2008.

In conjunction with the signing of employment agreements on May 11, 2006, the Company granted Mr. Jensen, Mr. Herbert, and Mr. DeMedio, 75,000, 18,000 and 7,000 Common Stock Options, all with an exercise price of $7.50 per share and all exercisable at any time within five years following the date of vesting. The options vest as follows: one-third on May 11, 2006; one-third on June 30, 2007; and one-third on June 30, 2008.

In conjunction with the appointment of Stephen McHugh to the Board of Directors on June 20, 2006, the Company granted Mr. McHugh 6,000 Common Stock Options with an exercise price of $8.00 per share. The options vest as follows: 3,000 on June 20, 2007 and 3,000 on June 20, 2008. The options are exercisable at any time within five years of vesting.

The issuance of all of the foregoing options was made in reliance upon the exemption provided by Section 4(2) of the Act as all of the options were issued to officers, directors, employees or consultants of USA, each of such issuances were separate transactions not part of any plan, and none of the issuances involved any general solicitation or advertising.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

EXHIBITS

Ex No	Description
2.1	Asset Purchase Agreement dated July 11, 2003 by and between USA and Bayview Technology Group LLC (Incorporated by reference to Exhibit 2.1 to Form 8-K filed July 14, 2003)
3.1	Amended and Restated Articles of Incorporation of USA filed January 26, 2004 (Incorporated by reference to Exhibit 3.1.19 to Form 10-QSB filed on February 12, 2004).
3.1.1	First Amendment to Amended and Restated Articles of Incorporation of USA filed on March 17, 2005 (Incorporated by reference to Exhibit 3.1.1 to Form S-1 Registration Statement No. 333-124078).
3.1.2	Second Amendment to Amended and Restated Articles of Incorporation of USA filed on December 13, 2005 (Incorporated by reference to Exhibit 3.1.2 to Form S-1 Registration Statement No. 333-130992).
3.2	By-Laws of USA (Incorporated by reference to Exhibit 3.2 to Form SB-2 Registration Statement No. 33-70992).
4.1	Form of 2004 Senior Note (Incorporated by reference to Exhibit 4.24 to Form SB-2 Registration Statement No. 333-101032).
4.2	Form of 2005 Senior Note (Incorporated by reference to Exhibit 4.25 to Form SB-2 Registration Statement No. 333-101032).
4.3	Addendum to 2006 Senior Note. (Incorporated by reference to Exhibit 4.30 to Form 10-KSB filed on September 28, 2004).
4.4	Addendum to 2007 Senior Note. (Incorporated by reference to Exhibit 4.30 to Form 10-KSB filed on September 28, 2003).
4.5	Common Stock Purchase Agreement between the Company and Steve Illes dated April 4, 2005 (Incorporated by reference to Exhibit 4.13.1 to Form S-1 Registration Statement No. 333-124078).
4.6	Form of 2004-B Note (Incorporated by reference to Exhibit 4.28 to Form S-1 Registration Statement No. 333-119951).
4.7	Form of 2005-C Note (Incorporated by reference to Exhibit 4.15 to Form S-1 Registration Statement No. 333-124078).

4.8	Stock Purchase Agreement dated December 13, 2005 by and between the Company and certain clients of Wellington Management Company, LLC (Incorporated by reference to Exhibit 4.1 to Form 8-K filed December 19, 2005).
4.9	Stock Purchase Agreement dated January 9, 2006, by and between the Company and Rationalwave On Shore Equity Fund, L.P. (Incorporated by reference to Exhibit 4.19 to Form S-1 Registration Statement No. 333-130992).
4.10	Form of 2006-A 10% Convertible Senior Note due December 31, 2010 (Incorporated by reference to Exhibit 4.20 to Form S-1 Registration Statement No. 333-130992).
4.11	Form of 2006-A Warrant(Incorporated by reference to Exhibit 4.21 to Form S-1 Registration Statement No. 333-130992).
4.12	Form of 2005-G Warrant (Incorporated by reference to Exhibit 4.22 to Form S-1 Registration Statement No. 333-130992).
4.13	Common Stock Purchase Agreement between the Company and Steve Illes dated February 17, 2006 (Incorporated by reference to Exhibit 4.23 to Form S-1 Statement No. 333-132019).
4.14	2006-B Common Stock Purchase Agreement between the Company and Steve Illes dated September 25, 2006 (Incorporated by reference to Exhibit 4.14 to Form 10-K filed September 28, 2006).
4.15	Settlement Agreement And Mutual Release between Erika Bender and USA Technologies, Inc. dated September 22, 2006 (Incorporated by reference to Exhibit 4.15 to Form S-1 Registration Statement No. 333-138116).
4.16	Settlement Agreement dated October 12, 2006 between Swartz Private Equity, LLC and USA Technologies, Inc (Incorporated by reference to Exhibit 4.16 to Form S-1 Registration Statement No. 333-138116).
4.17	Common Stock Purchase Agreement between the Company and Cortina Asset Management LLC dated December 15, 2006 (Incorporated by reference to Exhibit 4.17 to Form S-1 filed on January 9, 2007).
4.18	Common Stock Purchase Agreement between the Company and Wellington Management Company, LLP, acting on behalf of Public Sector Pension Investment Board, dated December 15, 2006 (Incorporated by reference to Exhibit 4.18 to Form S-1 filed on January 9, 2007).
4.19	Common Stock Purchase Agreement between the Company and Wellington Management Company, LLP, acting on behalf of New York Nurses Association Pension Plan, dated December 15, 2006 (Incorporated by reference to Exhibit 4.19 to Form S-1 filed on January 9, 2007).
4.20	Common Stock Purchase Agreement between the Company and Wellington Management Company, LLP, acting on behalf of The Government of Singapore Investment Corporation Pte Ltd, dated December 15, 2006 (Incorporated by reference to Exhibit 4.20 to Form S-1 filed on January 9, 2007).
4.21	Common Stock Purchase Agreement between the Company and SF Capital Partners Ltd. dated December 15, 2006 (Incorporated by reference to Exhibit 4.21 to Form S-1 filed on January 9, 2007).
4.22	Common Stock Purchase Agreement between the Company and United Capital Management, Inc. dated December 15, 2006 (Incorporated by reference to Exhibit 4.22 to Form S-1 filed on January 9, 2007).
4.23	Common Stock Purchase Agreement between the Company and Harbour Holdings Ltd. dated December 15, 2006 (Incorporated by reference to Exhibit 4.23 to Form S-1 filed on January 9, 2007).
4.24	Common Stock Purchase Agreement between the Company and Skylands Special Investment LLC dated December 15, 2006 (Incorporated by reference to Exhibit 4.24 to Form S-1 filed on January 9, 2007).
4.25	Common Stock Purchase Agreement between the Company and Skylands Quest LLC dated December 15, 2006 (Incorporated by reference to Exhibit 4.25 to Form S-1 filed on January 9, 2007).
4.26	Common Stock Purchase Agreement between the Company and Skylands Special Investment II LLC dated December 15, 2006 (Incorporated by reference to Exhibit 4.26 to Form S-1 filed on January 9, 2007).
4.27	Form of 2006-BP Common Stock Purchase Warrant (Incorporated by reference to Exhibit 4.27 to Form S-1 filed on January 9, 2007).
4.28	Common Stock Purchase Warrant issued to William Blair & Co., LLC, dated January 4, 2007 (Incorporated by reference to Exhibit 4.28 to Form S-1 filed on January 9, 2007).
4.29	Securities Purchase Agreement between the Company and S.A.C. Capital Associates, LLC dated March 14, 2007 (Incorporated by reference to Exhibit 4.1 to Form 8-K filed on March 15, 2007).
4.30	Form of Warrant No. SAC-001 issued to S.A.C. Capital Associates, LLC (Incorporated by reference to Exhibit 4.2 to Form 8-K filed on March 15, 2007).
4.31	Registration Rights Agreement between the Company and S.A.C. Capital Associates, LLC dated March 14, 2007 (Incorporated by reference to Exhibit 4.3 to Form 8-K filed on March 15, 2007).
4.32	Form of Securities Purchase Agreement dated October 17, 2007 between the Company and each of the Buyers (Incorporated by reference to Exhibit 4.1 of Form 8-K filed October 17, 2007).
4.33	Form of Registration Rights Agreement dated October 17, 2007 between the Company and each of the Buyers (Incorporated by reference to Exhibit 4.2 of Form 8-K filed October 17, 2007).
** 4.34	Common Stock Purchase Warrant issued to William Blair & Co., LLC, dated October 17, 2007.

** 5.1	Opinion of Lurio & Associates, P.C.
10.1	Amended And Restated Employment and Non-Competition Agreement between USA and Stephen P. Herbert dated May 11, 2006 (Incorporated by reference to Exhibit 10.2 to Form 10-Q filed on May 15, 2006).
10.2	Amended And Restated Employment and Non-competition Agreement between USA and George R. Jensen, Jr. dated May 11, 2006 (Incorporated by reference to Exhibit 10.1 to Form 10-Q filed on May 15, 2006).

10.3	Agreement and Plan of Merger dated April 10, 2002, by and among the Company, USA Acquisition, Inc., Stitch Networks Corporation, David H. Goodman, Pennsylvania Early Stage Partners, L.P., and Maytag Holdings, Inc. (Incorporated by reference to Exhibit 2.1 to Form 10-QSB for the quarter ended March 31, 2002).
10.4	Strategic Alliance Agreement between USA and ZiLOG Corporation dated October 15, 2002 (Incorporated by reference to Exhibit 10.39 to Form SB-2 Registration Statement No. 333-101032).
10.5	Vending Placement, Supply and Distribution Agreement between Stitch Networks Corporation, Eastman Kodak Company, Maytag Corporation and Dixie-Narco, Inc. dated D-ecember 2000 (Incorporated by reference to Exhibit 10.40 to Form SB-2 Registration Statement No. 333-101032).
10.6	Design and Manufacturing Agreement between USA and RadiSys dated June 27, 2000 (Incorporated by reference to Exhibit 10.41 to Form SB-2 Registration Statement No. 333-101032).
10.7	Termination Agreement dated December 31, 2003 by and between Eastman Kodak Company, Maytag Corporation, Dixie-Narco, Inc. and Stitch Networks Corporation. (Incorporated by reference to Exhibit 10.6 to Form 10-QSB filed on February 12, 2004).
10.8	Option Certificate (No. 198) dated April 28, 2004 in favor of Mary West Young. (Incorporated by reference to Exhibit 10.45 to Form SB-2 Registration Statement No. 333-116977).
10.9	Agreement of Lease between Pennswood Spring Mill Associates, as landlord, and the Company, as tenant, dated September 2002, and the Rider thereto (Incorporated by reference to Exhibit 10.21 to Form 10-KSB filed on September 28, 2004).
10.10	Agreement of Lease between Deerfield Corporate Center 1 Associates LP, as landlord, and the Company, as tenant, dated March 2003 (Incorporated by reference to Exhibit 10.22 to Form 10-KSB filed on September 28, 2004).
10.11	Amendment to Office Space Lease dated as of April 1, 2005 by and between the Company and Deerfield Corporate Center Associates, LP. (Incorporated by reference to Exhibit 10.19.1 to Form S-1 Registration Statement No. 333-124078).
10.12	Co-Marketing Agreement between Honeywell D.M.C. Services, LLC and the Company dated July 13, 2004 (Incorporated by reference to Exhibit 99.1 to Form 8-K filed on September 29, 2004).
10.13	Employment and Non-Competition Agreement between USA and David M. DeMedio dated April 12, 2005 (Incorporated by reference to Exhibit 10.22 to Form S-1 Registration Statement No. 333-124078).
10.14	First Amendment to Employment and Non-Competition Agreement between USA and David M. DeMedio dated May 11,2006 (Incorporated by reference to Exhibit 10.3 to Form 10-Q filed on May 15, 2006).

10.15	Option Certificate (No. 200) dated April 12, 2005 in favor of David M. DeMedio (Incorporated by reference to Exhibit 10.23 to Form S-1 Registration Statement No. 333-124078).
10.16	Agreement dated December 28, 2004 between USA Technologies and PepsiCo, Inc. (Incorporated by reference to Exhibit 10.01 of Form 8-K filed July 27, 2005).
10.17	Option Certificate (No. 201) dated May 11, 2006 in favor of George R. Jensen, Jr. (Incorporated by reference to Exhibit 10.21 to Form 10-K filed on September 28, 2006)
10.18	Option Certificate (No. 202) dated May 11, 2006 in favor of Stephen P. Herbert (Incorporated by reference to Exhibit 10.22 to Form 10-K filed on September 28, 2006)
10.19	Option Certificate (No. 203) dated May 11, 2006 in favor of David M. Demedio (Incorporated by reference to Exhibit 10.23 to Form 10-K filed on September 28, 2006)
10.20	Option Certificate (No. 204) dated April 21, 2006 in favor of William W. Sellers (Incorporated by reference to Exhibit 10.24 to Form 10-K filed on September 28, 2006)
10.21	Option Certificate (No. 205) dated April 21, 2006 in favor of William L. Van Alen, Jr. (Incorporated by reference to Exhibit 10.25 to Form 10-K filed on September 28, 2006)
10.22	Option Certificate (No. 206) dated April 21, 2006 in favor of Steven Katz (Incorporated by reference to Exhibit 10.26 to Form 10-K filed on September 28, 2006)
10.23	Option Certificate (No. 207) dated April 21, 2006 in favor of Douglas M. Lurio (Incorporated by reference to Exhibit 10.27 to Form 10-K filed on September 28, 2006)
10.24	Option Certificate (No. 208) dated April 21, 2006 in favor of Albert Passner (Incorporated by reference to Exhibit 10.28 to Form 10-K filed on September 28, 2006)
10.25	Option Certificate (No. 209) dated July 20, 2006 in favor of Stephen W. McHugh (Incorporated by reference to Exhibit 10.29 to Form 10-K filed on September 28, 2006)
10.26	USA Technologies, Inc. 2006-A Stock Compensation Plan (Incorporated by reference to Exhibit 10.1 to Form S-8 filed June 19, 2006).
10.27	Restricted Stock Issuance Agreement In Lieu of Cash Base Salary between George R. Jensen, Jr. and USA Technologies, Inc. dated June 28, 2006 (Incorporated by reference to Exhibit 10.31 to Form S-1 filed October 20, 2006).
10.28	Restricted Bonus Stock Issuance Agreement between George R. Jensen, Jr., and USA Technologies, Inc. dated June 28, 2006 (Incorporated by reference to Exhibit 10.32 to Form S-1 filed October 20, 2006).
10.29	Restricted Bonus Stock Issuance Agreement between Stephen P. Herbert and USA Technologies, Inc. dated June 28, 2006 (Incorporated by reference to Exhibit 10.33 to Form S-1 filed October 20, 2006).
10.30	MasterCard PayPass Agreement dated as of November 9, 2006 between the Company and MasterCard International Incorporated (Incorporated by reference to Exhibit 10.34 to Form S-1/A filed December 7, 2006).

10.31	Amendment to Agreement of Lease between BMR-Spring Mill Drive, L.P., as landlord, and the Company, as tenant, dated January 15, 2007 (Incorporated by reference to Exhibit 10.1 to Form 10-Q filed on February 13, 2007).
10.32	First Amendment to Employment and Non-Competition Agreement dated March 13, 2007, between the Company and George R. Jensen, Jr. (Incorporated by reference to Exhibit 10.32 to Form S-1 filed April 12, 2007).
10.33	First Amendment to Employment and Non-Competition Agreement dated March 13, 2007, between the Company and Stephen P. Herbert (Incorporated by reference to Exhibit 10.33 to Form S-1 filed April 12, 2007).
10.34	Second Amendment to Employment and Non-Competition Agreement dated March 13, 2007, between the Company and David M. DeMedio (Incorporated by reference to Exhibit 10.34 to Form S-1 filed April 12, 2007).
10.35	Form of Indemnification Agreement between the Company and each of its officers and Directors (Incorporated by reference to Exhibit 10.1 to Form 10-Q filed May 14, 2007).
10.36	Supply and Licensing Agreement dated as of February 19, 2007 between Coca-Cola Enterprises, Inc. and the Company (Incorporated by reference to Exhibit 10.34 to Form S-1 filed June 6, 2007).
10.37	Stock Issuance And Withholding Agreement between the Company and George R. Jensen, Jr., dated September 28, 2007 (Incorporated by reference to Exhibit 10.1 to Form 10-Q filed November 13, 2007).
10.38	Stock Issuance And Withholding Agreement between the Company and Stephen P. Herbert dated September 28, 2007 (Incorporated by reference to Exhibit 10.2 to Form 10-Q filed November 13, 2007).
10.39	Stock Issuance Agreement between the Company and David M. DeMedio dated September 28, 2007 (Incorporated by reference to Exhibit 10.3 to Form 10-Q filed November 13, 2007).
14.1	Code of Business Conduct and Ethics (Incorporated by reference to Exhibit 14.1 to Form 8-K filed on April 17, 2006).
** 23.1	Consent of Goldstein Golub Kessler LLP, Independent Registered Public Accounting Firm.

** Filed herewith

ITEM 16(b) FINANCIAL STATEMENT SCHEDULES

SCHEDULE II

USA TECHNOLOGIES, INC.
VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED JUNE 30, 2007, 2006 AND 2005

ACCOUNTS RECEIVABLE	Balance at beginning of period	Additions (reductions) charged to earnings	Deductions uncollectible receivables written off, net of recoveries	Balance at end of period
June 30, 2007	$ 229,000	9,000	96,000	$ 142,000
June 30, 2006	$ 196,000	131,000	98,000	$ 229,000
June 30, 2005	$ 240,000	(23,000)	20,000	$ 197,000

INVENTORY	Balance at beginning of period	Additions charged to earnings	Deductions shrinkage and obsolescence	Balance at end of period
June 30, 2007	$ 259,000	141,000	83,000	$ 317,000
June 30, 2006	$ 321,000	484,000	546,000	$ 259,000
June 30, 2005	$ 229,000	286,000	194,000	$ 321,000

ITEM 17. UNDERTAKINGS.

The undersigned registrant hereby undertakes:

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

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

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

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

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

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

(4) That, for purposes of determining liability under the Securities Act of 1933 to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration
statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(5) That, for purposes of determining liability of the undersigned registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, the undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

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

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing this Form S-1 and has duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in Malvern, Pennsylvania, on November 16, 2007.

USA TECHNOLOGIES, INC.

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

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

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

SIGNATURES	TITLE	DATE
/s/ George R. Jensen, Jr. George R. Jensen, Jr.	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	November 16, 2007
/s/ David M. DeMedio David M. DeMedio	Chief Financial Officer (Principal Accounting Officer)	November 16, 2007
/s/ Stephen P. Herbert Stephen P. Herbert	Chief Operating Officer, President and Director	November 16, 2007
/s/ William L. Van Alen, Jr. William L. Van Alen, Jr.	Director	November 16, 2007
/s/ Douglas M. Lurio Douglas M. Lurio	Director	November 16, 2007
/s/ Steven Katz Steven Katz	Director	November 16, 2007
/s/ Joel Brooks Joel Brooks	Director	November 16, 2007
/s/ Stephen W. McHugh Stephen W. McHugh	Director	November 16, 2007

Table of Contents

Exhibit Index

Exhibit Number	Description
4.34	Common Stock Purchase Warrant issued to William Blair & Co., LLC, dated October 17, 2007.
5.1	Opinion of Lurio & Associates, P.C.
23.1	Consent of Goldstein Golub Kessler LLP

Exhibit 4.34

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

WARRANT CERTIFICATE NO. BP-80	17,532 COMMON STOCK WARRANTS

USA TECHNOLOGIES, INC.

COMMON STOCK WARRANTS

(These Warrants will be void if not exercised
by the Termination Date specified below.)

1. Warrants. Subject to the terms and conditions hereof, this certifies that WILLIAM BLAIR & COMPANY, LLC, or any subsequent holder hereof, is the owner of Seventeen Thousand Five Hundred Thirty-Two (17,532) warrants (the "Warrants") of USA Technologies, Inc., a Pennsylvania corporation (the "Company"). Each Warrant entitles the holder hereof to purchase from the Company at any time prior to 5:00 p.m. on October 17, 2012 (the "Termination Date"), one fully paid and non-assessable share of the Company's Common Stock, without par value (the "Common Stock"), subject to adjustment as provided in Section 7 hereof.

2. Warrant Price. The Warrants shall be exercised by delivery to the Company (prior to the Termination Date) of the Warrant price for each share of Common Stock being purchased hereunder (the "Warrant Price"), this Certificate, and the completed Election To Purchase Form which is attached hereto. The Warrant Price shall be $7.70 per share of Common Stock. The Warrant Price shall be subject to adjustment as provided in Section 7 hereof. The Warrant Price is payable either in cash or by certified check or bank draft payable to the order of the Company.

3. Exercise. Upon the surrender of this Certificate and payment of the Warrant Price as aforesaid, the Company shall issue and cause to be delivered with all reasonable dispatch to or upon the written order of the registered holder of this Warrant and in such name or names as the registered holder may designate, a certificate or certificates for the number of full shares of Common Stock so purchased upon the exercise of any Warrant. Such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such Common Stock on and as of the date of the delivery to the Company of this Certificate and payment of the Warrant Price as aforesaid. If, however, at the date of surrender of this Certificate and payment of such Warrant Price, the transfer books for the Common Stock purchasable upon the exercise of any Warrant shall be closed, the certificates for the Common Stock in respect to which any such Warrant are then exercised shall be issued and the owner of such Common Stock shall become a record owner of such Common Stock on and as of the next date on which such books shall be opened, and until such date the Company shall be under no duty to deliver any certificate for such Common Stock.

4. Partial Exercise. The rights of purchase represented by the Warrants shall be exercisable, at the election of the registered holder hereof, either as an entirety, or from time to time for any part of the Common Stock specified herein and, in the event that the Warrants are exercised with respect to less than all of the Common Stock specified herein at any time prior to the Termination Date, a new Certificate will be issued to such registered holder for the remaining number of Warrants not so exercised.

5. Termination Date. All of the Warrants must be exercised in accordance with the terms hereof prior to the Termination Date. At and after the Termination Date any and all unexercised rights hereunder shall become null and void and all such unexercised Warrants shall without any action on behalf of the Company become null and void.

6. Lost, Mutilated Certificate. In case this Common Stock Warrant Certificate shall become mutilated, lost, stolen or destroyed, the Company shall issue in exchange and substitution for and upon cancellation of the mutilated certificate, or in lieu of and in substitution for the Certificate lost, stolen, or destroyed, a new Certificate of like tenor and representing an equivalent right or interest, but only upon receipt of evidence satisfactory to the Company of such loss, theft or destruction of such certificate and indemnity, if requested, also satisfactory to the Company.

7. Adjustments. Subject and pursuant to the provisions of this Section 7, the Warrant Price and number of shares of Common Stock subject to the Warrants shall be subject to adjustment from time to time only as set forth hereinafter:

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

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

c. Upon any adjustment of the Warrant Price as hereinabove provided, the number of shares of Common Stock issuable upon exercise of the Warrants remaining unexercised immediately prior to any such adjustment, shall be changed to the number of shares determined by dividing (i) the appropriate Warrant Price payable for the purchase of all shares of Common Stock issuable upon exercise of all of the Warrants remaining unexercised immediately prior to such adjustment by (ii) the Warrant Price per share of Common Stock in effect immediately after such adjustment. Pursuant to this formula, the total sum payable to the Company upon the exercise of the Warrants remaining unexercised immediately prior to such adjustment shall remain constant.

d. (i) If any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with another corporation, person, or entity, or the sale of all or substantially all of its assets to another corporation, person, or entity, shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities, cash, property, or assets with respect to or in exchange for Common Stock, and provided no election is made by the Company pursuant to subsection (ii) hereof, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, the Company or such successor or purchasing corporation, person, or entity, as the case may be, shall agree that the registered holder of the Warrants shall have the right thereafter and until the Termination Date to exercise such Warrants for the kind and amount of stock, securities, cash, property, or assets receivable upon such reorganization, reclassification, consolidation, merger, or sale by a holder of the number of shares of Common Stock for the purchase of which such Warrants might have been exercised immediately prior to such reorganization, reclassification, consolidation, merger or sale, subject to such subsequent adjustments which shall be equivalent or nearly equivalent as may be practicable to the adjustments provided for in this Section 7.

(ii) Notwithstanding subsection (i) hereof and in lieu thereof, the Company may elect by written notice to the registered holder hereof, to require such registered holder to exercise all of the Warrants remaining unexercised prior to any such reorganization, reclassification, consolidation, merger or sale. If the holder of this Warrant shall not exercise all or any part of the Warrants remaining unexercised prior to such event, such unexercised Warrants shall automatically become null and void upon the occurrence of any such event, and of no further force and effect. The Common Stock issued pursuant to any such exercise shall be deemed to be issued and outstanding immediately prior to any such event, and shall be entitled to be treated as any other issued and outstanding share of Common Stock in connection with such event. If an election is not made by the Company pursuant to this subsection (ii) in connection with any such event, then the provisions of subsection (i) hereof shall apply to such event.

e. Whenever the Warrant Price and number of shares of Common Stock subject to this Warrant is adjusted as herein provided, the Company shall promptly mail to the registered holder of this Warrant a statement signed by an officer of the Company setting forth the adjusted Warrant Price and the number of shares of Common Stock subject to this Warrant, determined as so provided.

f. This form of Certificate need not be changed because of any adjustment which is required pursuant to this Section 7. However, the Company may at any time in its sole discretion (which shall be conclusive) make any change in the form of this Certificate that the Company may deem appropriate and that does not affect the substance hereof; and any Certificate thereafter issued, whether in exchange or substitution for this Certificate or otherwise, may be in the form as so changed.

8. Reservation. There has been reserved, and the Company shall at all times keep reserved out of the authorized and unissued shares of Common Stock, a number of shares of Common Stock sufficient to provide for the exercise of the right of purchase represented by the Warrants. The Company agrees that all shares of Common Stock issued upon exercise of the Warrants shall be, at the time of delivery of the Certificates for such Common Stock, validly issued and outstanding, fully paid and non-assessable.

9. Fractional Shares. The Company shall not issue any fractional shares of Common Stock pursuant to any exercise of any Warrant and shall pay cash to the holder of any Warrant in lieu of any such fractional shares.

10. No Right. The holder of any Warrants shall not be entitled to any of the rights of a shareholder of the Company prior to the date of issuance of the Common Stock by the Company pursuant to an exercise of any Warrant.

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

12. Transferability. Subject to compliance with applicable securities laws, the Warrants represented by this Certificate and this Certificate shall inure to the benefit of and be exercisable by any holder's heirs, personal representatives, successors and assigns, and shall be fully assignable and transferable by any holder at any time and from time to time, including by will, intestacy or otherwise. Any such assignee or transferee shall be entitled to all the benefits hereof and shall be the holder hereof.

13. Applicable Law. The Warrants and this Certificate shall be deemed to be a contract made under the laws of the Commonwealth of Pennsylvania and for all purposes shall be construed in accordance with the laws thereof regardless of its choice of law rules.

IN WITNESS WHEREOF, USA TECHNOLOGIES, INC., has executed and delivered this Warrant Certificate as of the date written below.

USA TECHNOLOGIES, INC.

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

Attest: /s/ Stephen P. Herbert
Stephen P. Herbert, Secretary

Dated: October 24, 2007

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

ELECTION TO PURCHASE

The undersigned hereby irrevocably elects to exercise the right of purchase represented by the attached Warrant Certificate No. _ of the Company. The undersigned desires to purchase _ shares of Common Stock provided for therein and tenders herewith full payment of the Warrant Price for the shares of Common Stock being purchased, all in accordance with the Certificate. The undersigned requests that a Certificate representing such shares of Common Stock shall be issued to and registered in the name of, and delivered to, the undersigned at the address set forth in the attached certificate. If said number of shares of Common Stock shall not be all the shares purchasable under the Certificate, then a new Common Stock Warrant Certificate for the balance remaining of the shares of Common Stock purchasable shall be issued to and registered in the name of, and delivered to, the undersigned at the address set forth in the attached certificate.

Dated: ____________________,20 ______ Signature: ____

Exhibit 5.1

November 16, 2007

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

Re: USA Technologies, Inc. - Registration Statement on Form S-1

Dear Mr. Jensen:

We have acted as counsel to USA Technologies, Inc., a Pennsylvania corporation (the "Company"), in connection with a Registration Statement on Form S-1, filed with the Securities and Exchange Commission on November 16, 2007 (the "Registration Statement"). The Registration Statement covers an aggregate of 2,385,652 shares of Common Stock ("Common Stock"), 2,368,120 of which are currently outstanding, and 17,532 of which are issuable upon the exercise of common stock purchase warrants.

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

In rendering the opinion expressed below, we assumed the authenticity of all documents and records examined, the conformity with the original documents of all documents submitted to us as copies, and the genuineness of all signatures.

Based upon and subject to the foregoing, and such legal considerations as we deem relevant, we are of the opinion that (i) the 2,368,120 shares of Common Stock that are currently issued and outstanding are legally issued, fully paid and nonassessable; and (ii) the 17,532 shares issuable upon exercise of common stock purchase warrants, when issued, will be legally issued, fully paid and nonassessable.

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

Sincerely,

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

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated September 26, 2007 in the Registration Statement (Form S-1 No. 333-000000) and related Prospectus of USA Technologies, Inc. dated November 16, 2007.

/s/ Goldstein Golub Kessler LLP

New York, New York
November 16, 2007