



January 20, 2011

USA Technologies, Inc. Reports Results for Fiscal 2011 Second Quarter

Achieves Strategic Objectives with 109,000 Network Connections and \$456,000 of Quarterly EBITDA

License and Transaction Fee Revenue Up 81%, Total Revenue Up 60%

MALVERN, Pa.--(BUSINESS WIRE)-- USA Technologies, Inc. (NASDAQ: [USAT](#)), a leader in the networking of wireless cashless transactions, today reported results for the second quarter of fiscal 2011 (ended December 31, 2010).

Results for Second Fiscal Quarter

Total revenue for the quarter increased 60% to \$6.0 million, compared to \$3.8 million in the second quarter of the prior year, while revenue from recurring license and transaction fees increased 81% to \$3.8 million compared to \$2.1 million for the quarter a year ago. Gross profit for the quarter was \$2.5 million, or 41% of revenue, and was up 146% versus \$1.0 million, or 27% of revenue, in last year's fiscal second quarter. Earnings before interest, taxes, depreciation and amortization (EBITDA) was \$456,000 for the quarter, the Company's first positive EBITDA quarter since listing on NASDAQ. In the second fiscal quarter of the prior year the Company had an EBITDA loss of \$3.8 million.

During the second quarter the Company recorded significant growth across its operating performance metrics, including:

- Increased the number of devices connected to its network by 73%, bringing the total number of devices connected at quarter end to approximately 109,000, compared to 63,000 as of December 31, 2009, driving an 81% increase in license and transaction processing revenue as compared to the prior corresponding quarter;
- The number of cashless transactions processed during the quarter increased to 15.9 million and processing volume reached \$26.2 million, representing increases of 94% and 75%, respectively;
- Customers on the Company's USALive® Network up 81% compared to a year ago, with approximately 200 new customers added during the past three months, bringing the total number of such customers to over 1,400 as of December 31, 2010. By comparison, in the second quarter of last fiscal year the Company added 175 new customers to end the quarter with approximately 775 customers;
- Decreased selling, general and administrative expenses by 53% compared to the second quarter of the previous year.

"The second quarter of fiscal 2011 was the most successful quarter in the Company's history as we sustained our momentum to surpass two milestones, generating positive quarterly EBITDA and exceeding 100,000 devices connected to our network," said George Jensen, Chairman and CEO of USA Technologies. "During the quarter, we added over 21,000 new connections to our network. This widening base of connected devices not only provides incremental revenue, but we believe provides our small-ticket, unattended point-of-sale target markets with the added validation it has been awaiting."

In addition, as the Company has attained positive EBITDA for the quarter and had at least 100,000 connections to its network as of December 31, 2010, Shareholder Advocates For Value Enhancement does not have the right to name an additional director pursuant to the February 4, 2010 Settlement Agreement.

Mr. Jensen concluded, "At the same time we have grown revenues, we have significantly reduced our selling, general and administrative expenses. Over the long term, we believe we can effectively leverage our growing stream of monthly revenues while maintaining a tight control on expenses. We are excited about our recent successes and the significant growth we have achieved over past several quarters and look forward to building upon that growth and solidifying our place as the leader in small ticket, unattended wireless transactions."

Non-GAAP Financial Measures: EBITDA

This press release includes the following financial measure defined as a non-GAAP (Generally Accepted Accounting Principles) financial measure by the Securities and Exchange Commission: EBITDA. This non-GAAP financial measure is not required by or defined by GAAP, nor is the presentation of this financial measure intended to be considered in isolation or as a substitute for the financial measure prepared and presented in accordance with GAAP, including the net income or net loss of the

Company. Management recognizes that non-GAAP financial measures have limitations in that they do not reflect all of the items associated with the Company's net income or net loss as determined in accordance with GAAP and is not a substitute for or measure of the Company's profitability or net earnings. EBITDA is presented because the Company had a stated goal of achieving positive quarterly EBITDA for the quarter ended December 31, 2010 and EBITDA is utilized in the February 4, 2010 Settlement Agreement.

Reconciliation of GAAP Net Earnings to Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA).

	Q2 FY 11	Q2 FY 10
Net Loss	\$ (133,131)	\$ (4,245,356)
Less: Interest Income	(17,469)	(12,699)
Plus: Interest Expense	9,977	9,719
Taxes	--	--
Plus: Depreciation Expense	338,358	171,441
Plus: Amortization Expense	258,600	258,600
EBITDA	\$ 456,335	\$ (3,818,295)

About USA Technologies:

USA Technologies is a leader in the networking of wireless non-cash transactions, associated financial/network services and energy management. USA Technologies provides networked credit card and other non-cash systems in the vending, commercial laundry, hospitality and digital imaging industries. The Company has been granted 79 patents and has agreements with AT&T, Visa, Compass and others. Visit our website at www.usatech.com.

Forward-looking Statements:

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: All statements other than statements of historical fact included in this release, including without limitation the anticipated future financial results of the Company are forward-looking statements. When used in this release, words such as "anticipate," "believe," "estimate," "expect," "intend," and similar expressions, as they relate to the Company or its management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including but not limited to, whether or not the marketplace continues to adopt cashless transaction processing; whether or not the marketplace continues to purchase the Company's products in the future; the ability of the Company to retain key customers from whom a significant portion of its revenues is derived; the ability of the Company to compete with its competitors to obtain market share in the future; the ability of the Company to obtain widespread commercial acceptance of its products in the future; whether the Company's existing or anticipated customers purchase ePort devices or other Company products at levels currently anticipated by the Company; and whether the Company's customers continue to operate or commence operating ePorts received under the Jump Start Program or otherwise at levels currently anticipated by the Company. Readers are cautioned not to place undue reliance on these forward-looking statements. Any forward-looking statement made by us in this release speaks only as of the date of this release. Unless required by law, the Company does not undertake to release publicly any revisions to these forward-looking statements to reflect future events or circumstances or to reflect the occurrence of unanticipated events.

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

	Three months ended December 31,		Six months ended December 31,	
	2010	2009	2010	2009
Revenues:				
Equipment sales	\$ 2,260,826	\$ 1,697,053	\$ 3,357,020	\$ 3,634,460
License and transaction fees	3,755,690	2,073,786	7,100,163	3,964,015
Total revenues	6,016,516	3,770,839	10,457,183	7,598,475
Cost of equipment	843,683	1,080,878	1,492,581	2,390,235

Cost of services	2,684,812	1,680,565	5,121,011	3,168,722
Cost of sales	3,528,495	2,761,443	6,613,592	5,558,957
Gross profit	2,488,021	1,009,396	3,843,591	2,039,518
Operating expenses:				
Selling, general and administrative	2,262,967	4,857,366	5,176,266	8,423,143
Depreciation and amortization	365,677	400,366	707,218	785,431
Total operating expenses	2,628,644	5,257,732	5,883,484	9,208,574
Operating loss	(140,623)	(4,248,336)	(2,039,893)	(7,169,056)
Other income (expense):				
Interest income	17,469	12,699	42,779	27,636
Interest expense	(9,977)	(9,719)	(22,629)	(30,135)
Total other income (expense), net	7,492	2,980	20,150	(2,499)
Net loss	(133,131)	(4,245,356)	(2,019,743)	(7,171,555)
Cumulative preferred dividends	-	-	(333,351)	(382,703)
Loss applicable to common shares	(133,131)	(4,245,356)	(2,353,094)	(7,554,258)
Loss per common share (basic and diluted)	\$ (0.01)	\$ (0.19)	\$ (0.09)	\$ (0.36)
Weighted average number of common shares outstanding (basic and diluted)	26,005,257	22,728,252	25,923,931	21,274,089

USA Technologies, Inc.
Consolidated Balance Sheets

	December 31, 2010	June 30, 2010
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,995,996	\$ 7,604,324
Accounts receivable, less allowance for uncollectible accounts of \$47,000 and \$41,000, respectively	1,260,945	2,048,421
Finance receivables	256,781	242,452
Inventory, net	1,351,601	2,633,971
Prepaid expenses and other current assets	480,542	847,344
Total current assets	8,345,865	13,376,512
Finance receivables, less current portion	228,871	339,341
Property and equipment, net	7,934,562	4,511,889
Intangibles, net	3,293,453	3,810,653
Goodwill	7,663,208	7,663,208
Other assets	160,299	146,821
Total assets	<u>\$ 27,626,258</u>	<u>\$ 29,848,424</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 4,768,289	\$ 4,570,730
Accrued expenses	1,494,995	1,869,367
Current obligations under long-term debt	308,147	344,652
Total current liabilities	6,571,431	6,784,749
Long-term debt, less current portion	150,206	251,503
Total liabilities	<u>6,721,637</u>	<u>7,036,252</u>

Commitments and contingencies

Shareholders' equity:

Preferred stock, no par value: Authorized shares- 1,800,000 Series A convertible preferred- Authorized shares 900,000; Issued and outstanding shares- 442,968 and 444,468, respectively (liquidation preference of \$14,364,874 and \$14,079,523, respectively)	3,138,056	3,148,676
Common stock, no par value: Authorized shares- 640,000,000; Issued and outstanding shares- 26,009,281 and 25,497,155, respectively	210,114,364	209,958,552
Accumulated deficit	<u>(192,347,799)</u>	<u>(190,295,056)</u>
Total shareholders' equity	20,904,621	22,812,172
Total liabilities and shareholders' equity	<u>\$ 27,626,258</u>	<u>\$ 29,848,424</u>

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

	Six months ended	
	December 31,	
	2010	2009
Operating activities		
Net loss	\$(2,019,743)	\$(7,171,555)
Adjustments to reconcile net loss to net cash used in operating activities:		
Charges incurred in connection with the vesting and issuance of common stock for employee compensation	8,802	61,931
Charges incurred in connection with the Long-term Equity Incentive Program	54,395	104,730
Bad debt expense	25,728	67,432
Amortization	517,200	517,200
Depreciation, \$414,646 and \$56,742 of which is allocated to cost of services for the six months ended December 31, 2010 and 2009	604,664	324,973
Loss on disposal of property and equipment	10,380	-
Changes in operating assets and liabilities:		
Accounts receivable	761,748	(495,637)
Finance receivables	96,141	(964,732)
Inventory	(2,541,602)	(700,555)
Prepaid expenses and other assets	447,635	188,026
Accounts payable	197,559	(687,203)
Accrued expenses	<u>(331,201)</u>	<u>1,443,841</u>
Net cash used in operating activities	(2,168,294)	(7,311,549)
Investing activities		
Purchase of property and equipment, net	<u>(213,745)</u>	<u>(281,391)</u>
Net cash used in investing activities	(213,745)	(281,391)
Financing activities		
Net proceeds from the issuance (retirement) of common stock	5,824	12,948,491
Payments for the retirement of preferred stock	-	(200,911)
Repayment of long-term debt	(232,113)	(330,024)
Net cash provided by (used in) financing activities	(226,289)	12,417,556
Net increase (decrease) in cash and cash equivalents	(2,608,328)	4,824,616
Cash and cash equivalents at beginning of period	<u>7,604,324</u>	<u>6,748,262</u>
Cash and cash equivalents at end of period	<u>\$ 4,995,996</u>	<u>\$ 11,572,878</u>
Supplemental disclosures of cash flow information:		
Prepaid insurance financed with long-term debt	<u>\$ 94,311</u>	<u>\$ 85,991</u>
Cash paid for interest	<u>\$ 23,269</u>	<u>\$ 11,976</u>

Transfer of inventory to property and equipment for rental units	<u>\$ 3,823,972</u>	<u>\$ 106,232</u>
Conversion of convertible preferred stock to common stock	<u>\$ 10,620</u>	<u>\$ -</u>
Conversion of cumulative preferred dividends to common stock	<u>\$ 33,000</u>	<u>\$ -</u>
Disposal of property and equipment	<u>\$ 140,931</u>	<u>\$ -</u>
Equipment acquired under capital lease	<u>\$ -</u>	<u>\$ 17,337</u>

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