

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-KSB

Annual Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the fiscal year ended June 30, 2001 Commission file number: 33-70882
OR

Transition report pursuant to section 13 or 15(d) of the
Securities Exchange Act of 1934 [No Fee Required]

For the transition period from _____ to _____

USA TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania 23-2679963
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

200 Plant Avenue, Wayne, PA. 19087
(Address of principal executive offices) (Zip Code)
(610)-989-0340
(Registrant's telephone number, including area code)

NONE
(Securities registered under Section 12(b) of the Exchange Act)

NONE
(Securities registered pursuant to Section 12(g) of the Exchange Act)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to for such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405, of regulations S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB.

Transitional Small Business Disclosure Format Yes No

Registrant's total revenues for its most recent fiscal year.....\$1,451,002.

As of September 28, 2001, there were outstanding 28,206,539 shares of Common Stock, no par value.

The company's voting securities are traded on the Over the Counter (OTC) Electronic Bulletin Board. The aggregate market value of the company's voting securities held by non-affiliates of the Registrant was \$17,300,545 on September 28, 2001 based upon the closing price of the Registrant's Common Stock on that date.

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USA TECHNOLOGIES, INC.

PART I

Item 1. Business

USA Technologies, Inc., a Pennsylvania corporation (the "Company"), was founded in January 1992. Our vision is to be a major player in the 'Digital, Networked Economy' by providing the marketplace with embedded technology and associated network and on-line financial services that will help transform their businesses. The ultimate goal is to position the Company as the preferred method and industry standard for cashless micropayments and automated retailing, and to become a leading point-of-sale, interactive media and network services company.

The Company intends to accomplish this by building on its market position in networked, unattended consumer payment systems through a new e-Business solution called e-Port(TM). To this end, the Company has focused on developing e-Port(TM) - its new credit card payment system. The non-media version of the e-Port is a device that is integrated with copiers, vending machines or other host equipment that gathers information about sales and operations of the host equipment and also allows a consumer to use a credit card to make a purchase. The media version of the e-Port is currently being engineered and would enable consumers to view interactive advertising/media, and to conduct simple, secure and direct e-commerce while making routine purchases anywhere. The non-media version of the e-Port contains all the functionality of USA Technologies' current TransAct(TM) system for credit card processing, micropayments, control and data management and would offer data management and auditing capability for vending operators, kiosk operators and others wishing to place equipment or products on a network via embedded computing capability.

The media capable version of the e-Port(TM) would be a non-PC device offering consumers the opportunity to view interactive advertising and to conduct e-commerce transactions while making routine purchases with a credit card, smart card or any other payment device such as a cellular phone, at vending machines, convenience stores, gas pumps and other high-traffic retail points-of-sale. The media capable e-Port(TM) also would allow advertisers the opportunity to operate non-PC electronic storefronts that could provide consumers with promotional offers at actual retail locations.

The Company is a leading provider and licensor of unattended, credit card activated control systems for the copying, debit card and personal computer industries. USA Technologies' devices make available unattended credit card payment technology in connection with the sale of a variety of products and services. USA Technologies has historically generated its revenues from the direct sale of its control systems and the resale of configured office products, plus network service fees, plus by retaining a portion of the monies generated from all credit card transactions conducted through its control systems.

We have been granted fourteen patents related to our technology. One of these is in the area of networked vending machines and credit card technology - including the use of smart cards. Another is a patented method of batch processing which enables consumers to engage in cashless micropayments. Fifty-three other foreign and domestic patents are pending.

The Company has entered into a corporate agreement with Promus Hotel Corporation (Embassy Suites, Hampton, and Doubletree brands) which establishes itself as a preferred supplier of business center products for those brands. The Company's Business Express(R) has been approved and recommended as a solution for business center needs by Marriott for its hotels. The Company is the exclusive provider of business center solutions to over 100 properties owned by MeriStar, and the preferred provider of business center products to over 100 additional properties managed by MeriStar. MeriStar is the largest independent hotel management company in the United States, operating over 200 hotels and resorts under such known brand names as Hilton, Holiday Inn and Wyndham. As of June 30, 2001, business centers have been installed at 14 MeriStar locations. The Company has a national reseller agreement in place with Xerox.

USA Technologies is a market leader in making self-serve, credit card activated products and services available to consumers everywhere. The Company has achieved this with the sale and installation of its product, Business Express(R) or MBE Business Express(R), at nearly 400 hotel, library and retail locations nationwide. Business Express(R) and MBE Business Express(R) offer thousands of business travelers and consumers the opportunity to conduct e-business/e-commerce 24 hours a day with the swipe of a credit card. The Business Express(R) gives consumers self-serve, public access to the Internet, copy and fax services, and other 'e-Business services'. At the heart of this product line is USA Technologies' networked payment solution TransAct(TM), an automated, credit card consumer payment system which has been utilized with photocopying machines, facsimile machines, computer printers, vending machines and debit and smart card purchase/revalue stations. The Company retains all rights to software and proprietary technology that it licenses to location operators for their exclusive use. As of June 30, 2001, 367 Business Express(R) or MBE Business Express(R) units are installed. The Company also markets a product line extension to the Business Express(R), called the Business Express(R) Limited Service Series (LSS). The LSS has copier and fax capabilities plus laptop printing, dataport capabilities and credit card activated phone. The LSS is targeted to the hospitality mid-market, limited service and economy properties. As of June 30, 2001, 100 LSS units are included in the total of 367 Business Express(R) or MBE Business Express(R) units installed. The Company also sells its TransAct(R) credit card device and payment system as a standalone offering to the world's leading office equipment manufacturers and distributors. The Company established a TransAct(R) Authorized Reseller Program to sign up various independent and national dealers and distributors. As of June 30, 2001, 22 dealers are participating in the program.

Currently, the Company has as its core business three components: unattended credit card control systems; a financial services and auditing network; and a proposed interactive media and ad serving network.

The first component is our credit card activated control systems. The current version of the Company's technology is TransAct(TM). This product, as outlined above, is currently installed in locations throughout North America. The latest generation of technology that the Company introduced is called the e-Port(TM). It was unveiled in October 2000 at the National Automatic Merchandising Association convention in New Orleans, the world's largest vending trade event.

The e-Port(TM) is designed to be a flexible and versatile embedded system device. While initially targeted to the vending industry, the technology that has been developed may be applied in many other industries such as copiers, retail point of sale, mass transit, etc; wherever pervasive computing, embedded systems and credit card and other cashless payment systems are used.

The e-Port(TM) hardware consists of a circuit board, RAM, Flash Memory, modem, ports, credit card reader, and propriety software. The Company is in the process of engineering a media capable e-Port featuring an LCD color touch screen. The version of e-Port(TM) with the LCD color touch screen is built to USA's specifications by RadiSys, a leader in developing and mass-producing embedded systems. The Company entered into a Development and Manufacturing Agreement ("DMA") with RadiSys Corporation in June, 2000. RadiSys has significant manufacturing expertise in the embedded chip market and is partially owned by Intel. The Company also contracts with Masterwork Electronics Corporation, a leader in the manufacture of electronics for the vending industry, for the non-media version of e-Port(TM) without the LCD color touch screen.

Additionally, e-Port(TM) uses the connectivity features developed by the Company. These include the ability to send and receive data via land lines, radio waves (like a home cordless phone), wireless modems, always-on phone connections, etc. The Telecom and Internet connections offered by Sprint support the hardware developed by the Company. USA Technologies and Sprint have agreed to a partnership allowing its customers access to many connectivity options at superior service levels and pricing.

e-Port(TM) technology is anticipated to be available in three primary configurations. By offering these options, the Company believes that it would provide a complete set of solutions and applications to solve the needs of customers and industries from the smallest to the largest, and most demanding.

- o e-Port(TM) - Audit. The audit only e-Port(TM) is an embedded device that is integrated with existing copiers, vending machines or other 'host' equipment. The auditing feature captures supply chain data (units sold, what sold, price of units sold, etc.) and other machine information. It will send the information back to either a customer's network or to the USA network for reporting.
- o e-Port(TM) - Audit/Credit. The Audit/Credit version of the e-Port(TM) is an embedded device that, in addition to gathering information about the sales and operation in the host equipment (the auditing portion) also allows a user to use a credit card or other cashless method to make a purchase. It will work with cash and credit as well as credit only. This version will allow a user to make multiple purchases with one credit card transaction. This unit relays both the credit and cash sales information back to a network along with the other audit information.
- o e-Port(TM) - Audit/Credit/Interactive. The Audit/Credit/Interactive version of e-Port(TM) is also known as the media capable e-Port and is currently being engineered by the Company. It would allow a user to take advantage of the benefits that network control and remote monitoring provide, the increased sales opportunity that the credit cards provides and the potential for revenue generation that the LCD screen with its interactive ad could possibly provide.

Our customers' terminals are currently networked together using USALive(TM) - a network service that enables terminal users to easily access basic audit information, conduct unattended credit card transactions, turnkey banking, and micropayments. The Company together with IBM Global Services is currently developing an enhanced network which should provide interactive media and advertising at point of sale. The Company anticipates that an additional \$1.6 million will be incurred in this regard in the first half of fiscal 2002.

The second component involves financial services and auditing. This capability provides users with auditing capability as well as turnkey credit card and banking capability.

- o USA utilizes a patented method of batch processing in order to conduct affordable credit card transactions of as little as \$1.00.
- o USA provides users of the e-Port(TM) and TransAct(TM) with the ability to instantly accept credit cards in an unattended location.
- o USA acts as a 'super merchant' for its customers - thereby helping them to avoid getting certified with credit card processors to do unattended transactions.
- o USA provides all the refunds, payments, and reporting of the credit card transactions.
- o The auditing capability of the network provides customers with detailed information on location or host equipment operation, sales, security, etc.

The third component would involve serving targeted, interactive ads to our proposed media capable e-Ports. In addition to being able to provide highly targeted ads, it would possibly serve these ads to a more captive audience than is possible with traditional web based advertising. The targeting of media via the Company's proposed network may be possible because the data base would be constantly updated concerning information about each e-Port(TM): state, city, zip code, make up of users from standpoint of: income, vocation, location of the machine (school, mall, convention center, movie theater, super market, etc.) A potential advertiser could possibly select the group they want to target to advertise to and the USA Ad Serving network could possibly send the ads to the targeted e-Ports.

The Company has been designated as an authorized equipment reseller by International Business Machines Corporation and Hewlett-Packard. The Company believes that it benefits from the association of its control systems with the well-known brands of business equipment manufactured by these companies.

On September 24, 1997, the Company entered into a Joint Venture Agreement ("JV") with Mail Boxes Etc. ("MBE"), in order to sell automated, credit card activated business centers under the name MBE(TM) Business Express(R). The JV was terminated in May 1999, but the Company continues to service all MBE(TM) Business Express(R) field installations.

For the years ended June 30, 2001 and 2000, the Company has expensed approximately \$1,260,000 and \$554,000, respectively for the development of its proprietary technology. These amounts include the expense of outside consultants and contractors as well as compensation paid to certain of the Company's employees and is reflected in compensation and general and administrative

expense in the accompanying financial statements. In addition, the Company has capitalized approximately \$3.1 million since May, 2000 for the services of IBM, to program the enhanced version of the Company's proprietary "USALive" network. See Note 2 to the Financial Statements.

As of June 30, 2001, the Company had a total installed base of 1,400 control systems, distributed as follows: 1,066 Business Express(R) or MBE Business Express(R) control systems, 170 Business Express(R) Limited Service (LSS) control systems, 23 Copy Express(TM) control systems, 10 Debit Express(TM) control systems, 6 Fax/Printer Express(TM) control systems, 3 Public PC(R) control systems and 122 standalone TransAct(R) control systems located at various hotels and libraries throughout the United States and Canada. In addition, there were 74 non-media e-Port(TM) control systems located at vending locations in the United States. Through June 30, 2001 total license and transaction fee revenues received by the Company from these systems, although growing, has not been sufficient to cover operating expenses.

Industry Trends

USA Technologies believes it has positioned itself to claim a piece of three important market spaces within the new Internet economy: interactive advertising, electronic commerce and pervasive computing. USA Technologies intends to continue to leverage its proprietary technologies, e-Port(TM) and TransAct(TM) payment systems, which put credit card activated goods and services, e-business and e-commerce at 'arms reach' of consumers. The Company will attempt to take advantage of four powerful trends:

1. Growth in credit card/cashless transactions
 - Transaction volume nearly quadrupled from 1990 to 2000
 - 1.3 billion credit cards in circulation
 - \$2.24 trillion in purchase volume in 2000
 - \$3.17 trillion in total volume* in 2000
 - Preferred method of payment for US consumers

This important trend is driving impressive growth in purchases of credit card devices, as well as the network services that support use of those terminals (e.g., credit card processing). Source: The Nilson Report.

(*Total volume includes purchases of goods and services, cash advances/withdrawals, and commercial funds transfers from business in China.)

2. Growth in cashless micropayments
 - Visa estimates that in the United States cash transactions below \$10 total nearly \$400 billion annually - an attractive market which is virtually untouched by credit cards. Furthermore research firm Ovum predicts that wireless micropayments - transactions of less than \$10 - will total \$200 billion worldwide by 2005.

3. Emergence of pervasive computing/'Internet Everywhere' appliances (source, IDC).

Growth in pervasive computing devices is expected to fuel unprecedented growth of Internet/e-Commerce. These intelligent or 'smart' devices (e.g. vending machines, personal digital assistants, credit card readers etc.) are embedded with microprocessors that allow users to gain direct, simple and secure access to relevant information and services via the Internet without the need for a PC.

It is projected that two billion people will be accessing the web with 'non-PC' Internet appliances which are simple to use and less costly than a conventional PC (e.g. digital assistants, intelligent cell phones, game devices). Billions of vending machines, television set top boxes, automobiles, telephones and payment devices of all types are anticipated to be embedded with computational ability and connected to the Internet.

4. Growth in interactive advertising

Interactive advertising is expected to grow from an annual \$2 billion industry in 1999 to over \$12 Billion by 2003 (source: Forester and IAB Internet Ad Revenue Report).

5. Growth in electronic commerce.

By the year 2003, it is projected by IDC that 500 million Internet users will be accessing information and conducting commerce over the net (versus 160 million users in 1998). This increased use would amount to two new users per second. As a consequence, consumer e-commerce will hit nearly \$200 billion annually by 2004.

Credit Card Processing

Each of the Company's credit card activated control systems records and transmits all transaction data to the Company, and the Company then forwards such data to the credit card processor. After receiving transaction information from the Company, the credit card processor electronically transfers the funds (less the credit card processor's charge) to the Company. The Company then forwards to the location its share of the funds.

The Company and each location have agreed on a percentage split of the gross proceeds from the Company's device. The credit card processor's fees and cost to forward the location's share of the gross proceeds are all paid for out of the Company's portion of the gross revenue.

The Company currently retains a portion of the gross revenues from each control system. If the Company has sold the equipment to the location, the portion retained is generally 5% of the gross revenues. In cases where the Company continues to own the equipment, the portion retained can be as high as 90% of gross revenues. In addition the Company charges a fixed monthly management fee which is generally \$20-\$25 per control system for existing hospitality locations.

Product Lines

The Business Express(R)

The hotel/motel hospitality industry has become more competitive as chains increase efforts to attract the most profitable customer: the business traveler or conference attendee, who accounts for the majority of hotel occupancy, stays longer and spends more per visit than the leisure traveler. For these reasons, hotels have become very responsive to the needs of the business traveler. The Business Express(R) enables a hotel to address some of these needs, while offering the possibility of generating incremental revenue.

The Business Express(R) utilizes the Company's existing applications for computers, copiers, and facsimile equipment, and combines them into a branded product. The Business Express(R) bundles the Public PC(R) unit, the Copy Express(TM) unit, and the Fax Express(TM) unit, into a functional kiosk type workstation. All devices are credit card activated, therefore eliminating the need for an attendant normally required to provide such services.

The MBE(TM) Business Express(R)

The MBE(TM) Business Express(R) bundles together the same components as the Business Express(R): Public PC(R), Copy Express(TM), and Fax Express(TM), but under the MBE brand name. In addition, the MBE(TM) Business Express(R) includes a dial-through service to a nearby MBE store making available the products and services of the store. The Company terminated the Joint Venture in May 1999.

The Copy Express(TM)

The Copy Express(TM) provides a cashless method to pay for the use of photocopying machines. The device is attached to the photocopying machine, computer printer, or microfilm/fiche printer in a similar manner as attaching a standard coin acceptor. The device can be attached to either existing or new equipment. The control system enables customers to photocopy documents with the use of a credit card.

The Debit Express(TM)

The Company's Debit Express(TM) enables customers to purchase or revalue their debit cards with the swipe of a credit card and eliminates the need for cash or for an attendant to handle cash or provide change. The Debit Express(TM) eliminates any reliance on cash by allowing customers to use a valid credit card to purchase or place additional value on a debit card.

The Public PC(R)

The Public PC(R) enables the public to utilize functions of a personal computer on an "as-needed" basis in the public domain. Our system controls access to the computer and charges for time in use, printed output, and any modem activity.

TransAct(R) as a Stand Alone Product

USA Technologies produced and patented TransAct(R), a cashless transaction terminal that enables secure, low cost credit transactions to take place. As the nerve center for USA's Business Express(R) product line, TransAct(R) currently enables all business center locations to provide 24/7 business center accessibility, secure transaction settlements and voice and display instructions for users. TransAct(R) works effectively to transform a la carte office components into automated, credit card-operated, revenue centers.

To penetrate effectively the "pay as you go" business service markets within the retail, university, transportation and apartment communities, three standardized TransAct(R) packages have been developed, priced and launched to office component dealers who already service these markets. The Company anticipates that the development of a dealer channel to sell TransAct(R) units will increase licensing and usage revenue streams.

The e-Port(TM)

The e-Port(TM) has two basic versions, both of which contain all the functionality of the current TransAct(R) terminal for credit card processing, control and data management. The non-media version of the e-Port is a device that is integrated with copiers, vending machines or other host equipment that gathers information about sales and operations of the host equipment and also allows a consumer to use a credit card to make a purchase. The media capable version which is currently being engineered would offer, in addition, capability for public access electronic commerce and advertising using the Internet. With the media capable e-Port(TM), the Company believes it has positioned itself to claim a piece of two important market spaces within the new "Internet" economy - electronic commerce and pervasive computing. This version would enable e-commerce to be transacted away from the computer and would offer Internet merchants an extension of their business without brick and mortar outlays. It could be considered a low cost "physical" location for "virtual" merchants. The media capable e-Port(TM) would possibly give consumers the opportunity to engage in interactive advertising and e-commerce while making routine purchases at millions of points of sale - including our Business Express(R) locations, vending machines, and convenience stores.

Marketing

As of June 30, 2001, the Company was marketing its products through its full time staff consisting of six salespeople. The company is primarily focused on the vending, hospitality and office equipment industries, but has expanded product distribution into new industries, including transportation, laundry and multi-housing.

In the vending industry, the non-media e-Port product line is now commercialized and being used by vending operators and soft drink bottlers in the USA and Canada. In April 2001, the Company formed a business alliance with Marconi, who holds the global agreement with the Coca-Cola Company for intelligent vending. The Company continues to work with the top vending machine manufacturers, including Automatic Products, AMS, U-Select-It, Rowe International, Vendtronics, Vendo, Royal and Dixie Narco; expand its authorized resellers, including Betson Enterprises, State Sales & Service and Weymouth Distributing; and intends to implement the non-media version of the e-Port with major national vending operators.

As for the hospitality industry, Business Express continues to be one of the premier solutions for automated business centers. The Company has relationships with the two most recognized global hotel chains, Marriott and Hilton Hotels and two of the largest hotel management companies in the USA, MeriStar Hotels and Prime Hospitality.

In the office equipment industry, the Company continues to work with Xerox, its largest authorized reseller on new distribution opportunities. In addition to Xerox, the Company has added a major new reseller in Canada, Global Technologies, which has increased the distribution of our TransAct products.

Procurement

The Company's media capable e-Port(TM) is currently being engineered to be internet and media capable and easily mass producible, by an independent contract manufacturer, RadiSys. The Company believes that work is nearing completion and test units have been received. Product orders to RadiSys are governed by the Design and Manufacturing Agreement signed in June, 2000.

In March, 2001, a manufacturing agreement between the Company and Masterwork Electronics was signed, to provide the Company with manufacturing capability for the non-media version of e-Port(TM). In April, 2001 the Company placed an order with Masterwork for 500 non-media units. In August, 2001, 100 were received, with the remainder due in September 2001 and November 2001.

The Company anticipates obtaining the other components of its business center (computers, printers, fax and copy machines) through CompuCom, a distributor of IBM products, Hewlett Packard, and copier and fax manufacturers. Orders are regularly placed for quantities required for expected orders several months in advance.

Competition

There are currently other businesses offering or announcing unattended, credit card activated control systems for use in connection with copiers, printers, personal computers, fax machines, Internet and e-mail access, vending, retail point of sale, and debit card purchase/revalue stations. In addition, the businesses which have developed unattended, credit card activated control systems currently in use in connection with gasoline dispensing, public telephones, prepaid telephone cards, ticket dispensing machines, vending machines, or facsimile machines, are capable of developing products or utilizing their existing products in direct competition with the Company. Many of these businesses 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. The Company is aware of businesses that have developed an unattended, credit card activated control system to be used in connection with vending machines. Any such increased competition 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. 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(R), and the locations may not order the Business Express(R), or if ordered, the hotel guest may not use it. The Company is aware that credit card activated personal computer kiosks have been developed and are in the marketplace.

Patents, Trademarks and Proprietary Information

The Company received federal registration approval of its trademarks Business Express(R), C3X(R), TransAct(R), and Public PC(R), and has applied for federal registration of its trademarks Copy Express(TM) and e-Port(TM).

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 of the Company's technology.

To date, twelve United States patents have been issued to the Company: 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", 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." U.S. Patent No. 6,152,365 entitled "Credit and Bank Issued Debit Card Operated System and Method for Controlling a Vending Machine"; U.S. Patent No. D437,890 entitled "Electronic Commerce Terminal Enclosure with a Hooked Fastening Edge for a Vending Machine". Two foreign patents have been granted to the Company, Canadian Patent No. D87998 entitled "Sign Holder" and Canadian Patent No. D91645 entitled "Laptop Data Port Enclosure".

As of June 30, 2001, the Company has 37 pending U.S. patent applications and 16 pending foreign patent applications.

Employees

As of June 30, 2001, the Company had twenty-eight full time employees.

Item 2. Properties

The Company leases its principal executive offices, consisting of approximately 10,000 square feet, at 200 Plant Avenue, Wayne, Pennsylvania for a monthly rental of \$12,705 plus utilities and operating expenses. The lease expires on June 30, 2002.

Item 3. Legal Proceedings

On June 28, 2001 the Company and Mail Boxes Etc. USA, Inc. settled the litigation between them which had been pending in the United States District Court of the Southern District of California. The settlement agreement provides that the entire litigation will be dismissed with prejudice.

MBE and the Company had formed a joint venture which sold unattended business centers to the hospitality industry. As part of the settlement, MBE has assigned to the Company all of MBE's rights in the joint venture as well as to all agreements entered into by the joint venture. MBE has also made a payment in an amount of not more than \$356,000 to those MBE franchisees who had purchased or leased the business centers.

As of March 31, 2001, the joint venture had an account payable to MBE in the amount of \$207,662. This account payable represented MBE's portion of monies which had actually been received by the joint venture but which had not yet been paid to MBE. In full payment of this account payable, and as part of the settlement, the Company released to MBE the amount of \$160,000.

Item 4. Submission of Matters to a Vote of Security Holders

- (a) The Annual Meeting of Shareholders was held on June 7, 2001.
- (b) Election of Directors

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

	For ---	Withhold -----
George R. Jensen, Jr.	13,242,353	178,575
Stephen P. Herbert	13,242,353	178,575
Steven Katz	13,234,451	186,477
William W. Sellers	13,242,353	178,575
Henry B. duPont Smith	13,241,353	179,575
William L. Van Alen, Jr.	13,242,353	178,575
Douglas M. Lurio	13,242,353	178,575
Edwin R. Boynton	13,242,353	178,575

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

Ratification of the appointment of Ernst & Young LLP as independent auditors for the Company for its 2001 fiscal year.

Affirmative Votes	13,317,790
Negative Votes	28,888
Abstaining Votes	74,250

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Common Stock is currently traded on the OTC Electronic Bulletin Board under the symbol USTT.

The high and low bid prices on the OTC Electronic Bulletin Board for the Common Stock were as follows:

Fiscal

2000 ----	High ----	Low ---
First Quarter (through September 30, 1999)	\$ 2.94	\$1.63
Second Quarter (through December 31, 1999)	\$ 6.56	\$1.63
Third Quarter (through March 31, 2000)	\$ 4.50	\$2.19
Fourth Quarter (through June 30, 2000)	\$ 3.38	\$1.31
2001 ----		
First Quarter (through September 30, 2000)	\$ 1.75	\$0.91
Second Quarter (through December 31, 2000)	\$ 1.78	\$0.66
Third Quarter (through March 31, 2001)	\$ 1.78	\$0.88
Fourth Quarter (through June 30, 2001)	\$ 1.28	\$0.74

Such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

At June 30, 2001, there are 4,886,667 shares of Common Stock issuable upon exercise of outstanding options. Of the 4,886,667 options, 5,000 are exercisable at \$.50 per share, 735,000 are exercisable at \$1.00 per share, 3,000,000 are exercisable at \$1.25 per share, 310,000 are exercisable at \$1.50 per share, 656,167 are exercisable at \$2.00 per share, 84,000 are exercisable at \$2.50 per share, 81,500 are exercisable at \$4.50 per share, and 15,000 are exercisable at \$5.00 per share. Subsequent to year end, 3,000,000 of the outstanding options expired unexercised. The Company has registered for resale under the 1933 Act all of the Common Stock underlying the options. All of the aforesaid options have been issued by the Company to employees, Directors, officers and consultants.

As of June 30, 2001, the following Warrants were outstanding:

- 4,000 1996-B Warrants;
- 1,500 1997 Warrants;
- 2,500 1998-A Warrants;
- 5,000 1998-B Warrants;
- 200,400 consultant warrants;
- 1,580,828 Swartz Private Equity, LLC warrants;
- 1,000,000 Automated Merchandising Systems, Inc. warrants;
- 5,338,800 2001-B Warrants; and
- 100,000 GEMA Warrants.

As of June 30, 2001, the Company has registered for resale under the 1933 Act all of the Common Stock underlying these warrants (other than those underlying the GEMA Warrants and 2001-B Warrants).

As of June 30, 2001, there are \$5,896,500 face value of Senior Notes Outstanding which are convertible into 4,621,200 shares of Common Stock, of these, \$5,656,500 are due December 31, 2003, with the remainder due December 31, 2001.

On June 30, 2001 there were 1,167 record holders of the Common Stock and 596 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 securities. No dividend may be paid on the Common Stock until all accumulated and unpaid dividends on the Preferred Stock have been paid. As of June 30, 2001, such accumulated unpaid dividends amount to \$4,621,150 and an additional \$413,219 of dividends accrued on August 1, 2001.

During fiscal year 2001, certain holders of the Company's Preferred Stock converted 11,160 shares into 11,160 shares of Common Stock. Certain of these shareholders also converted cumulative preferred dividends of \$87,030 into 8,703 shares of Common Stock.

As of June 30, 2001, there were 555,284 shares of Common Stock issuable upon conversion of the outstanding Preferred Stock and 462,115 shares issuable upon the conversion of cumulative Preferred Dividends, which when and if issued would be freely tradeable under the Act.

Subsequent to June 30, 2001 and through September 28, 2001, the following equity activity occurred:

On September 14, 2001, the Company completed the 2001-B Private Placement. An additional \$2,116,054 has been received in cash from July 1, 2001 through September 28, 2001 related to this Private Placement

Subsequent to June 30, 2001, the Company executed a Securities Purchase Agreement with a private placement investment company for the purchase of \$225,000 of Convertible Debentures bearing 9 3/4 percent interest with a maturity date of August 3, 2003. Interest is payable by the Company monthly in arrears. The Debenture is convertible at any time after the earlier of the effectiveness of the registration statement or 90 days following issuance, at the lower of \$1.00 per share or 80% of the lowest closing bid price of the Common Stock during the 30 days preceding exercise. As of September 20, 2001, the Company has received \$100,000 with the remainder to be received when the Company completes the registration of the conversion shares. In July 2001, the investment company also paid gross proceeds of \$50,000 to the Company to secure the right to exercise up to 500,000 warrants for a one year period commencing on the date on which the Registration Statement is first declared effective. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

Certain holders of the Company's Preferred Stock converted 4,325 shares into 4,325 shares of Common Stock; certain of these shareholders also converted cumulative preferred dividends of \$38,920 into 3,892 shares of Common Stock.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This Form 10-KSB 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, including the media capable version of the e-Port, or if actually commercialized, to obtain commercial acceptance thereof, (v) the ability of the Company to compete with its competitors to obtain market share, or (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. 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.

Introduction

The Company had a net loss during the years ended June 30, 2001 and 2000 of \$10,956,244 and \$8,404,481, respectively, and anticipates incurring operating losses through fiscal 2002.

Results of Operations

Fiscal year ended June 30, 2001:

For the fiscal year ended June 30, 2001, the Company had a net loss of \$10,956,244. The loss applicable to common shares of \$11,792,785 or \$.70 loss per common share (basic and diluted) was derived by adding the \$10,956,244 net loss, the \$836,541 of cumulative preferred dividends, and dividing by the weighted average shares outstanding of 16,731,999.

Revenues for the fiscal year ended June 30, 2001 were \$1,451,002, a decrease of \$603,339 or 29% from the prior year, primarily due to a decrease of \$745,000 or 55% in equipment and installation sales of our higher priced Business Express(R) or MBE Business Express(R) and Business Express(R) Limited Service Series (LSS). Offsetting this decrease were increases in the sale of the Company's standalone TransAct(R) control system of \$129,000 or 462% and the initial sales of the non-media e-Port(TM) control system of \$19,000 or 100%.

Operating expenses for the fiscal year ended June 30, 2001 were \$9,620,675, representing a \$746,333 or 8% increase over the prior year. The primary contributors to these increases were compensation expense and general and administrative expense offset by reductions in cost of sales, as detailed below.

Cost of sales decreased by \$442,555 from the prior year, primarily reflecting the decrease in the Business Express(R) or MBE Business Express(TM) and Business Express(R) LSS centers sold. General and administrative expenses of \$5,628,014 increased by \$626,182 or 13%. This increase was due to increased product development costs of \$450,000, public relations expenses of \$188,000, license expense for DoubleClick Adserver software of \$120,000, market research expenses of \$88,000, trade show and related travel expenses of \$74,000, offset by a decrease in legal expenses of \$238,000, primarily associated with the MBE litigation which has been settled in fiscal year 2001.

Compensation expense was \$2,966,776, an increase of \$463,611 or 19% from the previous year. The increase was due to an increase in executive bonus expense of \$234,000 or 66%, of which \$201,000 of this increase was non-cash. Additional increases in salaries and related employee benefits of \$169,000 or 9%, are due to increased personnel activities in all areas of the Company and an increase of \$51,000 in the matching 401K Company contributions instituted in July 2000.

Depreciation expense of \$209,646 increased by \$99,095, which is directly attributable to the increased depreciable asset base.

Other income and expense decreased by \$481,909, primarily as a result of the extension of the amortization period of the debt discount due to the exchange of certain 1999 Senior Notes into 2000 Senior Notes, which is a non-cash expense.

In November 2000, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) required companies to adopt a new methodology for computing the beneficial conversion feature of convertible securities, which is to be applied retroactively for commitments entered into on or after May 20, 1999. Accordingly, a one-time, non-cash charge of \$821,000 has been recorded for the cumulative effect of accounting change as required under the guidance provided by the EITF.

The exchange of the 1999 Senior Notes to the 2000 Senior Notes was determined to be a substantial modification of the terms of the original debt instrument and, accordingly, the Company wrote-off the unamortized debt discount and other issuance costs associated with the exchange of the 1999 Senior Notes in the amount of \$863,000. Such amount has been reported as a non-cash extraordinary item in the fiscal year 2001 statement of operations.

Fiscal year ended June 30, 2000:

For the fiscal year ended June 30, 2000, the Company had a net loss of \$8,404,481. The loss applicable to common shares of \$9,334,559 or \$.92 loss per common share (basic and diluted) was derived by adding the \$8,404,481 net loss and the \$930,078 of cumulative preferred dividends and dividing by the weighted average shares outstanding of 10,135,905.

Revenues for the fiscal year ended June 30, 2000 were \$2,054,341, a decrease of \$1,836,175 or 47% under the prior year, reflecting the large Prime Hospitality rollout of the MBE Business Express(R) in fiscal year 1999.

Operating expenses for the fiscal year ended June 30, 2000 were \$8,874,342, representing a \$1,578,714 or 22% increase over the prior year. The primary contributors to this increase were general and administrative expenses and compensation expense offset by a reduction in cost of equipment sales, as detailed below.

Cost of sales decreased by \$1,704,128 from the prior year, primarily reflecting the decrease in the Business Express(R) or MBE Business Express(R) centers sold. General and administrative expenses of \$5,001,832 increased by \$2,314,088 or 86%. This increase is primarily due to legal expenses associated with the pending MBE litigation, which amounted to approximately \$1,600,000 an increase of \$1,000,000 over the prior year. All but approximately \$150,000 of these expenses were non-cash as the legal counsel was paid for services by the issuance of the Company's common stock. Other general and administrative expenses increased by approximately \$1,300,000. Components of this increase include an increase in research and development costs of \$356,280, increases in outside marketing and operational services of \$654,381, increased charges for consulting and professional fees of \$300,436 primarily to fund public relations, increases in costs related to the rental and maintenance of the company's corporate office of \$98,496 and one time expenses for relocation of personnel of \$55,418. Offsetting these increases was a decrease in trade show costs of \$26,630, or 37%.

Compensation expense was \$2,503,165, an increase of \$949,976 or 61% from the previous year. The increase was due to the non-cash expense of \$293,700 relating to the compensation charge recorded for bonuses to employees for work performed in fiscal year 2000, and increases in salaries of \$656,276, or 42%, which is due to increased personnel activities in all areas of the Company.

Other expenses increased by \$1,337,968. Of this increase, \$976,380 was non-cash, due to amortization of debt discount relating to the outstanding Senior Notes. Cash interest expense accounted for an increase of \$493,462 offset by an increase in interest income of \$82,707.

Depreciation expense of \$110,551 increased by \$18,778, which is directly attributable to the increased depreciable asset base.

Plan of Operations

As of June 30, 2001, the Company had a total of 1,474 credit card activated control systems installed in the field as follows: Business Express(R) or MBE Business Express(R) 1,066, Business Express(R) Limited Service (LSS) 170, Copy Express(TM) 23, Debit Express(TM) 10, Public PC(R) 3, Fax/Printer Express(TM) 6, standalone TransAct(TM) 122 and non-media e-Port(TM) 74. Through June 30, 2001 total license and transaction fees earned by the Company from these systems were \$647,317, an increase of \$6,976 or 1% over the prior year.

During the past year the Company has focused on presenting the multiple capabilities of its new e-port(TM) by developing several product lines of e-Port(TM). The "audit plus credit" version contains all the functionality of the current TransAct(TM) terminal for credit card processing, control and data management, plus the added ability to audit vending product usage and vending machine status. Through August, 2001, over 100 pre-production units have been distributed to test sites, distributors and operators. Some minor refinements are being worked on, and limited production quantities are scheduled for delivery in late September and November 2001.

The Company believes that the media capable version of e-Port(TM) is nearing completion. This proposed product would offer capability for public access electronic commerce and advertising using the Internet, in addition to the capabilities of the audit plus credit version. For this web enabled version, the Company is working with RadiSys, a contract manufacturer providing value added design, development, fulfillment and product warranty services. The Company anticipates that limited quantities of this Internet ready e-Port(TM) may be delivered during the second quarter of fiscal year 2002.

Concurrent with the above developments to the e-Port(TM) product line, IBM is working with the Company to develop an internet capable version of the existing network, which is designed to support transaction processing, advertising and e-commerce on a worldwide basis with enhanced security features. Expenditures have been made to recode our existing system in an internet friendly programming language and to use a more appropriate operating system.

In June, 2001, the Company and IBM signed an Agreement which establishes the basis for a strategic alliance between the two companies. The two companies will combine their respective products and capabilities to target sales to the intelligent vending, retail point of sale, and networked home applications markets. Cooperation is currently underway to identify customers, trade shows, and marketing avenues.

The Company has also been cultivating relationships in the vending marketplace. Coca Cola has contracted with Marconi Online Systems, Inc., a subsidiary of Marconi plc, a British telecommunications company, to provide "intelligent vending" solutions for portions of its vending machines. Through our Company's business alliance with Marconi, executed in April of 2001, our e-Port(TM) and associated network could be used in connection with Marconi's fulfillment of the Coca Cola contract. Other major soda vending players are also being

cultivated, including most of the manufacturers of vending machines and electronic components, vending product manufacturers and distributors, and large operators of major vending franchise routes. Vending companies who deal with other vended products are also being contacted, including those who vend prepaid phone cards and hot meals.

Additional plans for the coming fiscal year include further activity in the advertising and media arenas and development of strategic partnering relationships. Recently, the Company has signed a contract with United Taxi Alliance of New York, Inc., a newly formed New York non-profit corporation, to sell media capable e-Ports to UTA over a three year period.

Liquidity and Capital Resources

During the fiscal year ended June 30, 2001, the Company completed several financing transactions. Net proceeds of \$2,722,536 were realized from private placement offerings of Common Stock and \$2,112,100 was realized from the exercise of Common Stock Purchase Warrants. As of June 30, 2001, the Company had a working capital deficit of \$2,390,543, which included cash and cash equivalents of \$817,570 and inventory of \$560,410.

During the fiscal year ended June 30, 2001, net cash of \$3,568,924 was used by operating activities, primarily due to the net loss of \$10,956,244, offset by a non-cash charge of \$974,222 for Common Stock, options and warrants issued for services and interest in lieu of cash payments, and \$764,736 of non-cash amortization of the debt discount relating to the Senior Notes. During the fiscal year ended June 30, 2001, net cash used in investing activities was \$3,318,466, principally due to the increase in software development costs of \$2,938,111 relating to the e-Port(TM). The net cash provided by financing activities of \$5,845,600 was attributable primarily to net proceeds generated from the issuance of Common Stock through private placements and exercise of Common Stock Purchase Warrants described in the prior paragraph and \$1,174,818 of net proceeds generated through the issuance of 2000 Senior Notes.

During fiscal 2002, the Company anticipates additional capitalization of approximately \$1.6 million for software development on its network.

During fiscal year 2001 and through September 2001, the Company sold a total of 746.88 Units in a private placement offering at a price of \$6,000 per unit. Each unit consisted of 10,000 shares of Common Stock and warrants to purchase up to 20,000 shares of Common Stock at \$.50 per share. One-half of the warrants are exercisable on or before December 31, 2001 and the balance are exercisable on or before June 30, 2002. Of the units sold, 618.0 were for cash and 128.88 were issued in exchange for services rendered to the Company. Of the units sold, 479.94 were sold subsequent to June 30, 2001.

During July 2001, the Company issued to La Jolla Cove Investors, Inc. a warrant to purchase up to 500,000 shares of Common Stock. The warrant can be exercised at any time in whole or in part within one year following the effectiveness of the registration statement covering the resale of the shares issuable upon exercise of the warrant. The exercise price of the warrant is the lower of \$1.00 or 80% of the lowest closing bid price of the Common Stock during the 20 trading days prior to exercise. The Company has agreed to prepare and file at its cost and expense a registration statement covering the resale by La Jolla of the shares underlying the warrant. At the time of the issuance of the warrant, La Jolla paid to the Company a non-refundable fee of \$50,000 to be credited towards the exercise price under the warrant. A broker-dealer received a commission of \$3,500 in connection with this warrant.

During August 2001, the Company issued to La Jolla a \$225,000 Convertible Debenture bearing 9 3/4 percent interest with a maturity date of August 2, 2003. Interest is payable by the Company monthly in arrears. The Debenture is convertible at any time after the earlier of the effectiveness of the registration statement referred to below or 90 days following issuance at the lower of \$1.00 per share or 80% of the lowest closing bid price of the Common Stock during the 20 days preceding exercise. If on the date of conversion the closing bid price of the shares is \$.40 or below, the Company shall have the right to prepay the portion being converted at 150% of the principal amount being converted. In such event, La Jolla shall have the right to withdraw its conversion notice. At the time of conversion of the Debenture, the Company has agreed to issue to La Jolla warrants to purchase an amount of Common Stock equal to ten times the number of shares actually issued upon conversion of the Debenture. The warrants are exercisable at any time for two years following issuance and at the related conversion price of the Debenture. The Company has agreed to prepare and file at its expense a registration statement covering the resale of the shares of Common Stock underlying the Debenture as well as the related warrants issuable upon conversion of the Debenture. La Jolla paid to the Company the sum of \$100,000 at the time of the issuance of the Debenture and has agreed to pay \$125,000 at the time of the effective date of the registration statement.

In August 2001, the Company issued a warrant to a consultant, to purchase up to 150,000 shares of Common Stock at \$.70 per share. The warrant is exercisable at any time prior to two years following issuance. The Company has agreed to prepare and file at its expense a registration statement covering the resale of the shares of Common Stock underlying the warrant.

In September 2001, the Company commenced a private placement offering of up to 2,000,000 shares of Common Stock at \$.50 per share. The offering is exempt from the registration requirements of the Act pursuant to Section 4(2) and Rule 506 thereunder and is being offered and sold only to accredited investors. For each share purchased, the investor shall also receive a warrant to purchase one share of Common Stock at \$.50 per share at any time prior to March 31, 2002. The Company has agreed to prepare and file at its expense a registration statement covering the resale of the shares of Common Stock and the shares of Common Stock underlying the warrants. To date, \$260,000 has been deposited and subscription agreements for \$591,143 have been received.

In September 2001, the Company (i) extended the expiration date of the warrants to purchase up to 1,000,000 shares issued to a consultant from August 31, 2001 until October 31, 2001; (ii) issued 200,000 options to an employee, and 100,000 options to each of two consultants. The options are fully vested and are exercisable at \$.70 per share at any time prior to June 30, 2003; and (iii) reduced the purchase price for the shares of Common Stock which can be purchased with the quarterly interest payments made on the Senior Notes from \$1.00 to \$.50 for the quarters ending September 30, 2001 and December 31, 2001. In June 2001, the Company reduced the purchase price for the Common Stock from \$1.00 to \$.80 for the interest payment due for the quarter ended June 30, 2001.

To date, the Company has received nominal funds from Swartz Private Equity, LLC under its equity credit line with Swartz. The Company does not anticipate any significant use of the Swartz credit line in the future.

The Company has incurred losses of \$11.0 million and \$8.4 million during each of the fiscal years ending June 30, 2001 and 2000, respectively, and an accumulated deficit from inception through June 30, 2001 amounting to \$39.2 million and a shareholders deficit of \$2.8 million. The Company anticipates that for the year ending June 30, 2002 there will be a negative cash flow from operations in excess of \$3 million thus, the Company will require additional debt or equity financing which may not be readily available. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's independent auditors have included an explanatory paragraph in their report on the Company's June 30, 2001 financial statements. The Company believes that the funds available at June 30, 2001 combined with events anticipated to occur including the anticipated revenues to be generated during fiscal year 2002, the potential capital to be raised from the exercise of the Common Stock Purchase Warrants, the funds anticipated to be received in future private placements, and the ability to reduce anticipated expenditures, if required, will allow the Company to continue as a going concern.

Commitments

The Company leases approximately 10,000 square feet in Wayne, Pennsylvania for a monthly rental of \$12,705 plus utilities and operating expenses. The lease expires on June 30, 2002.

The Company has acquired inventory financing using IBM Global Financing. The debt to IBM is secured primarily by the inventory being financed and bears an annual interest rate of 10%, subject to adjustments if the outstanding balance is outstanding greater than 180 days. As of June 30, 2001, \$45,785 of debt is outstanding under this arrangement.

USA Technologies, Inc.

Financial Statements

Years ended June 30, 2001 and 2000

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Report of Independent Auditors

Board of Directors and Shareholders
USA Technologies, Inc.

We have audited the accompanying balance sheets of USA Technologies, Inc. as of June 30, 2001 and 2000, and the related statements of operations, shareholders' deficit, and cash flows for each of the two years in the period ended June 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 financial position of USA Technologies, Inc. at June 30, 2001 and 2000, and the results of its operations and its cash flows for each of the two years in the period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming USA Technologies, Inc. will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has never been profitable and continues to incur losses from operations and anticipates that it will require additional debt or equity financing which may not be readily available. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets, including software development costs, or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
September 7, 2001, except for Note 14,
as to which the date is September 20, 2001

USA Technologies, Inc.

Balance Sheets

	June 30	
	2001	2000

Assets		
Current assets:		
Cash and cash equivalents	\$ 817,570	\$ 1,859,360
Accounts receivable, less allowance for uncollectible accounts of \$28,000 and \$50,000 in 2001 and 2000, respectively	64,752	603,171
Inventory	560,410	992,980
Prepaid expenses and other current assets	428,825	300,607
Deposits	-	192,000
Subscriptions receivable	29,000	12,199

Total current assets	1,900,557	3,960,317
Property and equipment, net	761,324	384,847
Software development costs, at cost	3,087,415	149,304
Other assets	31,765	14,740

Total assets	\$ 5,781,061	\$ 4,509,208
	=====	
Liabilities and shareholders' deficit		
Current liabilities:		
Accounts payable	\$ 2,607,570	\$ 1,194,391
Accrued expenses	1,355,595	554,243
Equipment line of credit	45,785	183,196
Convertible Senior Notes	211,704	-
Current obligations under capital leases	70,446	9,493

Total current liabilities	4,291,100	1,941,323
Convertible Senior Notes, less current portion	4,236,281	2,688,402
Obligations under capital leases, less current portion	53,577	34,965

Total liabilities	8,580,958	4,664,690
Shareholders' deficit:		
Preferred Stock, no par value:		
Authorized shares - 1,800,000		
Series A Convertible Preferred - Authorized shares - 900,000		
Issued and outstanding shares - 555,284 and 566,444 at June 30, 2001 and 2000, respectively (liquidation preference of \$10,173,990 at June 30, 2001)	3,933,253	4,012,266
Common Stock, no par value:		
Authorized shares - 62,000,000		
Issued and outstanding shares - 21,450,755 and 13,375,291 at June 30, 2001 and 2000, respectively	32,977,922	24,204,050
Deferred compensation and other	(502,000)	(206,000)
Accumulated deficit	(39,209,072)	(28,165,798)

Total shareholders' deficit	(2,799,897)	(155,482)

Total liabilities and shareholders' deficit	\$ 5,781,061	\$ 4,509,208
	=====	

See accompanying notes.

USA Technologies, Inc.
Statements of Operations

	Year ended June 30	
	2001	2000
Revenues:		
Equipment sales	\$ 803,685	\$ 1,414,000
License and transaction fees	647,317	640,341

Total revenues	1,451,002	2,054,341
Operating expenses:		
Cost of sales	816,239	1,258,794
General and administrative	5,628,014	5,001,832
Compensation	2,966,776	2,503,165
Depreciation	209,646	110,551

Total operating expenses	9,620,675	8,874,342

Other income (expense):		
Interest income	60,034	91,054
Interest expense:		
Coupon or stated rate	(587,769)	(598,239)
Non-cash amortization of debt discount	(764,736)	(1,011,874)
Less: Amounts capitalized	230,000	-

Total interest expense	(1,122,505)	(1,610,113)
Other income (expense)	(40,100)	(65,421)

Total other income (expense)	(1,102,571)	(1,584,480)

Loss before cumulative effect of accounting change and extraordinary item	(9,272,244)	(8,404,481)
Cumulative effect of accounting change	(821,000)	-

Loss before extraordinary item	(10,093,244)	(8,404,481)
Extraordinary loss on exchange of debt	(863,000)	-

Net loss	(10,956,244)	(8,404,481)
Cumulative preferred dividends	(836,541)	(930,078)

Loss applicable to common shares	\$(11,792,785)	\$(9,334,559)
	=====	
Loss per common share (basic and diluted):		
Loss before cumulative effect of accounting change and extraordinary item	\$ (0.60)	\$ (0.92)
Cumulative effect of accounting change	(0.05)	-
Extraordinary loss on exchange of debt	(0.05)	-

Loss per common share (basic and diluted)	\$ (0.70)	\$ (0.92)
	=====	
Weighted average number of common shares outstanding (basic and diluted)	16,731,999	10,135,905
	=====	

See accompanying notes.

USA Technologies, Inc.

Statements of Shareholders' Deficit

	Series A Convertible Preferred Stock	Common Stock	Deferred Compensation	Subscriptions Receivable	Accumulated Deficit	Total
Balance, June 30, 1999	\$4,537,128	\$14,277,763	\$ -	\$ (83,983)	\$(19,374,437)	\$(643,529)
Issuance of 210,523 shares of Common Stock to employees as compensation	-	505,746	-	-	-	505,746
Issuance of 578,000 shares of Common Stock in exchange for consulting services	-	1,156,000	-	-	-	1,156,000
Conversion of 74,133 shares of Preferred Stock to 74,133 shares of Common Stock	(524,862)	524,862	-	-	-	-
Conversion of \$386,880 of cumulative preferred dividends into 38,688 shares of Common Stock at \$10.00 per share	-	386,880	-	-	(386,880)	-
Deferred compensation - employee stock awards - 120,000 shares at \$2.00 per share	-	240,000	(240,000)	-	-	-
Compensation expense related to deferred stock awards	-	-	34,000	-	-	34,000
Exercise of 911,600 Common Stock warrants at \$.50 per share	-	455,800	-	-	-	455,800
Exercise of 252,750 Common Stock warrants at \$1.00 per share	-	252,750	-	-	-	252,750
Exercise of 110,000 Consultant warrants at \$2.00 per share	-	220,000	-	-	-	220,000
Exercise of 34,000 Common Stock warrants at \$2.50 per share	-	85,000	-	-	-	85,000
Exercise of 10,000 Common Stock options at \$1.50 per share	-	15,000	-	-	-	15,000
Exercise of 6,500 Common Stock options at \$2.50 per share	-	16,250	-	-	-	16,250
Issuance of 250,000 Common Stock warrants in exchange for professional services	-	99,000	-	-	-	99,000
Issuance of 218,000 shares of Common Stock from the conversion of \$545,000 of the 12% Senior Notes	-	352,881	-	-	-	352,881
Issuance of 3,560,000 shares of Common Stock at \$1.00 per share in connection with the 1999-B Private Placement, net of offering costs of \$96,058	-	3,463,942	-	-	-	3,463,942
Issuance of 1,200,000 shares of Common Stock at \$2.00 per share in connection with the 2000-A Private Placement, net of offering costs of \$222,647	-	2,177,353	-	-	-	2,177,353
Reduction of 20,000 shares of Common Stock and 10,000 warrants issued in connection with the cancellation of \$50,000 Senior Notes issued in fiscal 1999	-	(25,177)	-	-	-	(25,177)
Subscriptions receivable collected	-	-	-	83,983	-	83,983
Net loss	-	-	-	-	(8,404,481)	(8,404,481)
Balance, June 30, 2000	4,012,266	24,204,050	(206,000)	-	(28,165,798)	(155,482)

USA Technologies, Inc.

Statements of Shareholders' Deficit (continued)

	Series A Convertible Preferred Stock	Common Stock	Deferred Compensation and Other	Accumulated Deficit	Total
Conversion of 11,160 shares of Preferred Stock to 11,160 shares of Common Stock	\$ (79,013)	\$ 79,013	\$ -	\$ -	\$ -
Conversion of \$87,030 of cumulative preferred dividends into 8,703 shares of Common Stock at \$10.00 per share	-	87,030	-	(87,030)	-
Issuance of 418,250 shares of Common Stock to employees as compensation	-	474,995	-	-	474,995
Compensation expense related to deferred stock awards	-	-	103,000	-	103,000
Issuance of 200,000 shares of Common Stock in exchange for consulting services	-	200,000	-	-	200,000
Exercise of 2,112,100 Common Stock warrants at \$1.00 per share	-	2,112,100	-	-	2,112,100
Issuance of 24,000 shares of Common Stock from the conversion of \$35,000 Senior Notes	-	28,024	-	-	28,024
Issuance of 895,000 shares of Common Stock at \$1.00 per share in connection with the 2000-B Private Placement, net of offering costs of \$117,849	-	777,151	-	-	777,151
Issuance of 450,000 shares of Common Stock at \$1.00 per share in connection with the 2001-A Private Placement, net of offering costs of \$22,500	-	427,500	-	-	427,500
Issuance of 2,669,400 shares of Common Stock at \$0.60 per share in connection with the 2001-B Private Placement, net of offering costs of \$54,755	-	1,546,885	-	-	1,546,885
Issuance of 1,136,300 shares of Common Stock in connection with the 2000 12% Convertible Senior Note Offering	-	1,215,843	-	-	1,215,843
Debt discount relating to beneficial conversion feature on the 2000 12% Convertible Notes	-	409,104	-	-	409,104
Issuance of 121,541 shares of Common Stock in lieu of cash payment for interest on the 2000 12% Convertible Senior Notes	-	114,927	-	-	114,927
Issuance of options to distributor	-	420,000	(420,000)	-	-
Expense associated with options issued to distributor	-	-	21,000	-	21,000
Other	-	60,300	-	-	60,300
Issuance of 29,010 shares of Common Stock at \$1.05 per share in connection with the \$20 million equity line Investment Agreement, net of offering costs of \$30,461	-	-	-	-	-
Issuance of 1,580,828 Common Stock commitment warrants in connection with \$20 million Equity Line Investment Agreement	-	-	-	-	-
The cumulative effect of accounting change related to the beneficial conversion feature associated with the 1999 Convertible Senior Notes	-	821,000	-	-	821,000
Net loss	-	-	-	(10,956,244)	(10,956,244)
Balance, June 30, 2001	\$ 3,933,253	\$ 32,977,922	\$ (502,000)	\$ (39,209,072)	\$ (2,799,897)

See accompanying notes.

USA Technologies, Inc.

Statements of Cash Flows

	Year ended June 30	
	2001	2000

Operating activities		
Net loss	\$ (10,956,244)	\$ (8,404,481)
Adjustments to reconcile net loss to net cash used in operating activities:		
Cumulative effect of accounting change	821,000	-
Extraordinary loss on exchange of debt	863,000	-
Charges incurred in connection with stock awards and the issuance of Common Stock and Common Stock Purchase Warrants	859,295	1,696,846
Depreciation	209,646	110,551
Interest amortization relating to Senior Notes	764,736	1,011,874
Interest expense on the 2000 Senior Notes paid through the issuance of Common Stock	114,927	-
Changes in operating assets and liabilities:		
Accounts receivable	538,419	(241,708)
Inventory	345,009	131,642
Prepaid expenses, deposits, and other assets	356,757	(376,451)
Accounts payable	1,713,179	230,903
Accrued expenses	801,352	102,042

Net cash used in operating activities	(3,568,924)	(5,738,782)
Investing activities		
Purchase of property and equipment	(380,355)	(173,532)
Increase in software development costs	(2,938,111)	(149,304)

Net cash used in investing activities	(3,318,466)	(322,836)
Financing activities		
Net proceeds from the issuance of Common Stock and the exercise of Common Stock Purchase Warrants and Options	4,834,636	6,686,095
Net repayment of equipment line of credit	(137,411)	(621,289)
Collection of subscriptions receivable	12,199	200,657
Repayment of principal on capital lease obligations	(38,642)	(9,501)
Proceeds from issuance of the 2000 Senior Notes, net of issuance costs of \$73,682	1,174,818	-

Net cash provided by financing activities	5,845,600	6,255,962

Net (decrease) increase in cash and cash equivalents	(1,041,790)	194,344
Cash and cash equivalents at beginning of year	1,859,360	1,665,016

Cash and cash equivalents at end of year	\$ 817,570	\$ 1,859,360
	=====	
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 472,842	\$ 593,472
	=====	
Issuance of New Senior Notes in exchange for services rendered	\$ 610,000	\$ -
	=====	
Issuance of Common Stock options to distributor	\$ 420,000	\$ -
	=====	
Conversion of Convertible Preferred Stock to Common Stock	\$ 79,013	\$ 524,862
	=====	
Conversion of Cumulative Preferred Dividends to Common Stock	\$ 87,030	\$ 386,880
	=====	
Prepaid stock expenses through issuance of Common Stock	\$ 42,000	\$ 77,900
	=====	
Subscriptions receivable	\$ 29,000	\$ -
	=====	
Conversion of Senior Notes to Common Stock	\$ 28,024	\$ 352,881
	=====	
Transfer of inventory to property and equipment	\$ 87,561	\$ 131,214
	=====	
Capital lease obligations incurred	\$ 118,207	\$ 26,982
	=====	
Cancellation of Senior Notes	\$ -	\$ 50,000
	=====	
Property and equipment acquired with the issuance of Common Stock	\$ -	\$ 20,000
	=====	

See accompanying notes.

June 30, 2001

1. Business

USA Technologies, Inc., a Pennsylvania corporation (the "Company"), was incorporated on January 16, 1992. The Company is a provider and licensor of unattended, credit card activated control systems for the copy, fax, debit card, personal computer and vending industries. The Company's customers are principally located in the United States and are comprised of hotels, retail locations, university libraries and public libraries. The Company generates its revenues from the direct sale of its control systems and configured business equipment utilizing its control systems, from retaining a percentage of the gross licensing fees generated by the control systems, and from a monthly administrative service fee.

The Company offers the Business Express(R) and Business Express(R) Limited Service (LSS) principally to the hospitality industry. The Business Express(R) and Business Express(R) Limited Service (LSS) combines the Company's business applications for computers, copiers and facsimile machines into a business center unit.

The Company's next generation control system (e-Port(TM)), which includes capabilities for interactive multimedia and e-commerce, acceptance of other forms of electronic payments and remote monitoring of host machine data is being marketed and sold to operators, distributors and original equipment manufacturers (OEM) primarily in the vending industry. No significant revenues have been generated from the e-Port(TM) as the product has not been released in the marketplace (Note 2).

During June 2001, the Company and IBM entered into a one year, non-exclusive strategic marketing agreement in order to market and sell information technology solutions to customers in the intelligent vending, retail point of sale and networked home application markets. The product offerings would consist of the Company's ePort(TM) and related network and IBM's products and services in the United States and Canada.

2. Accounting Policies

Basis of Financial Statement Presentation

The financial statements of the Company have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments to recorded asset values, including software development costs, that might be necessary should the Company be unable to continue in existence. The Company has never been profitable, has incurred losses of \$11.0 million and \$8.4 million during each of the fiscal years ending June 30, 2001 and 2000, respectively,

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Basis of Financial Statement Presentation (continued)

and cumulative losses from its inception through June 30, 2001 amounting to approximately \$36 million. Losses have continued through September 2001 and are expected to continue throughout fiscal year 2002. Further, the Company has a shareholders' deficit of \$2.8 million at June 30, 2001. The Company's ability to meet its future obligations is dependent upon the success of its products in the marketplace and its ability to raise capital, which may not be readily available, until the Company's products can generate sufficient operating revenues. These factors raise doubt about the Company's ability to continue as a going concern. Management believes that actions presently being taken will allow for the Company to continue as a going concern. Such actions include the generation of revenues from operations, additional private placement offerings, the exercise of Common Stock purchase warrants and options, and continued efforts to reduce costs.

Cumulative Effect of Accounting Change

During fiscal year 1999, the Company issued \$4,618,000 (as adjusted) of \$10,000 principal amount of Senior Notes. The Notes also included detachable equity instruments (see Note 9). During October 1999, the Company added a conversion feature to the Senior Notes whereby the Senior Notes were immediately convertible into Common Stock at \$2.50 per share at the option of the holder. At the time of the addition of the conversion feature, the Company determined that, based on the fair value of the Company's Common Stock and specified conversion prices, and, in accordance with the then applicable accounting pronouncements, these Senior Notes did not contain an embedded conversion feature.

In November 2000, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) reached a consensus on Issue 00-27, Application of EITF Issue 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios to Certain Convertible Instruments," whereby it was concluded that an issuer should calculate the intrinsic value of a conversion option using the effective conversion price, based on the proceeds received allocated to the convertible instrument instead of the specified conversion prices in the instrument. Issue 00-27 requires companies to apply the prescribed methodology for computing the beneficial conversion feature of convertible securities through a cumulative catch-up accounting change (in the quarter that includes November 2000) for any such security issued after May 20, 1999, the effective date of EITF 98-5.

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Cumulative Effect of Accounting Change (continued)

Accordingly, the Company recorded a one-time, non-cash charge during fiscal year 2001 of \$821,000 to record the cumulative effect of an accounting change as required by the EITF.

Use of Estimates

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

Cash Equivalents

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

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment

Property and equipment is recorded at cost. The straight-line method of depreciation is used over the estimated useful lives of the related assets.

Concentration of Credit Risk

Financial instruments that subject the Company to a concentration of credit risk consist principally of cash and accounts receivable. The Company maintains cash with various financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions, and the Company's policy is designed to limit exposure to any one institution. The Company does not require collateral or other security to support credit sales, but provides an allowance for bad debts based on historical experience and specifically identified risks.

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Revenue Recognition

Revenue from the sale of equipment is recognized upon installation and customer acceptance of the related equipment. License and transaction fee revenue is recognized upon the usage of the Company's credit card activated control systems.

Software Development Costs

The Company capitalizes software development costs 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. During May 2000, the Company reached technological feasibility for the development of the e-Port(TM) control system that would offer capability for public access electronic commerce and advertising using the Internet and, accordingly, the Company commenced capitalization of software development costs related to the e-Port(TM). Costs capitalized were approximately \$2,938,000 and \$149,000 during the years ended June 30, 2001 and 2000, respectively.

Amortization of software development costs will be 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. Amortization of such costs will commence when the e-Port(TM) becomes available for general release to customers, which is anticipated in fiscal year 2002. 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. The Company anticipates capitalization of an additional \$1.6 million during fiscal 2002 prior to the release of the e-Port(TM) to the marketplace.

Research and Development Expenses

Research and development expenses are expensed as incurred. Research and development expenses, which is included in general and administrative and compensation expenses in the statement of operations, was \$1,260,000 and \$554,000 for the years ended June 30, 2001 and 2000, respectively.

Accounting for Stock Options

Financial Accounting Standards Board Statement ("SFAS") No. 123, Accounting for Stock-Based Compensation, provides companies with a choice to follow the provisions of SFAS 123 in determination of stock-based

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

compensation expense or to continue with the provisions of Accounting Principles Board Opinion No. 25 ("APB 25"). The Company has elected to follow the provisions of APB 25. Under APB 25, if the exercise price of the Company's stock options equals or exceeds the market price of the underlying Common Stock on the date of grant, no compensation expense is recognized. The effect of applying SFAS 123 to the Company's stock-based awards results in net loss and net loss per common share that are disclosed on a pro forma basis in Note 12.

Loss Per Common Share

Basic earnings per share is calculated by dividing income (loss) applicable to common shares by the weighted average common shares outstanding for the period. Diluted earnings per share is calculated by dividing income (loss) applicable to common shares by the weighted average common shares outstanding for the period plus the dilutive effect (unless such effect is anti-dilutive) of equity instruments. No exercise of stock options, purchase rights, stock purchase warrants, or the conversion of preferred stock, cumulative preferred dividends or Senior Notes was assumed during fiscal 2001 or 2000 because the assumed exercise of these securities would be antidilutive.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses reported in the balance sheets equal or approximate fair value due to their short maturities. The fair value of the Company's Senior Notes approximates book value as such notes are at market rates currently available to the Company.

3. Joint Venture

During September 1997, the Company entered into a five-year Joint Venture Agreement with Mail Boxes Etc. ("MBE") to operate under the name "MBE Express Joint Venture" (hereinafter referred to as "Joint Venture") and exclusively sell and market the Company's Business Express(R) product under the name MBE Business Express(TM). The Joint Venture Agreement outlined the terms for sharing costs and profits. During September 1998, MBE commenced a legal action against the Company in the Superior Court of the State of California, (subsequently removed to the United States District Court for the southern District of California), alleging that 195 terminals purchased by MBE were defective and a refund of \$141,260 plus lost profits (claimed to be several hundred thousand dollars) were sought by MBE. MBE further claimed that it was not obligated to purchase 600 additional terminals ordered in April 1998. The Company filed a counterclaim against MBE which claimed numerous areas where MBE breached the Joint Venture Agreement, breached its fiduciary responsibility, and trade libel. On May 14, 1999, the Company notified MBE that the Company was terminating the Joint Venture Agreement, citing the numerous breaches of the Joint Venture Agreement. Obligations for continued servicing of MBE Business Express's were met by the Company.

During June 2001, the Company and MBE settled the litigation between them. As part of the settlement, MBE assigned to the Company all of the rights in the Joint Venture. The Company also agreed to pay MBE \$160,000 and the parties agreed to mutually release all claims against one another.

Notes to Financial Statements (continued)

4. Property and Equipment

Property and equipment consist of the following:

	Useful Lives	June 30	
		2001	2000
Control systems	3 years	\$ 533,055	\$ 377,997
Computer equipment and purchased software	3 years	609,775	205,270
Furniture and equipment	5 years	190,836	170,398
Leasehold improvements	Lease term	90,313	86,628
Vehicles	5 years	10,258	10,258
		-----	-----
		1,434,237	850,551
Less accumulated depreciation		672,913	465,704
		-----	-----
		\$ 761,324	\$ 384,847
		=====	=====

5. Accrued Expenses

Accrued expenses consist of the following:

	June 30	
	2001	2000
Accrued consulting fees	\$ 435,000	\$ -
Accrued professional fees	439,478	186,808
Accrued software license and support costs	154,229	159,268
Accrued compensation and related sales commissions	125,668	91,592
Accrued interest	91,585	-
Accrued product warranty costs	52,466	56,684
Accrued other	31,414	55,150
Advanced customer billings	25,755	4,741
	-----	-----
	\$ 1,355,595	\$ 554,243
	=====	=====

6. Related Party Transactions

At June 30, 2001 and 2000, approximately \$70,000 and \$19,000, respectively, of the Company's accounts payable and accrued expenses were due to a Board member for legal services performed. During the years ended June 30, 2001 and 2000, the Company incurred approximately \$271,000 and \$193,000, respectively, for these services.

7. Commitments

- o During May 1999, the Company entered into an agreement with IBM whereby IBM agreed to be the executional partner for certain aspects of the Company's business, including project management services, asset procurement, configuration and testing of equipment, site preparation, installation, maintenance services, and

Notes to Financial Statements (continued)

- o asset management. The agreement provides for an increase from 1,000 to 5,000 locations and expanded the array of Company products which are eligible for IBM installation. In connection with this agreement, the Company has also entered into an inventory financing arrangement with IBM Credit Corporation whereby IBM Credit Corporation granted the Company a \$1.5 million equipment line of credit. The outstanding balance is secured by the underlying inventory. Interest accrues on the outstanding balance at 10% per annum, subject to adjustment if the outstanding balance is outstanding greater than 180 days. At June 30, 2001 and 2000, respectively, \$45,785 and \$183,196 was outstanding under this agreement.
- o In connection with an employment agreement, expiring June 30, 2002, the Company's Chief Executive Officer has been granted in the event of a "USA Transaction," as defined, which among other events includes a change in control of the Company, irrevocable and fully vested rights equal to that number of shares of Common Stock that when issued to him equals eight percent of all the then issued and outstanding shares of the Company's Common Stock. The Chief Executive Officer is not required to pay any consideration for such shares. The stock rights have no expiration and are not affected by the Chief Executive Officer's termination of employment.
- o At June 30, 2001, the Company has entered into purchase commitments with vendors for inventory of approximately \$1,300,000.
- o The Company conducts its operations from various facilities under operating leases. Rent expense under such arrangements was approximately \$188,000 and \$140,000 during the years ended June 30, 2001 and 2000, respectively. During the years ended June 30, 2001 and 2000, the Company entered into agreements to lease \$118,207 and \$26,982, respectively, of computer equipment that were accounted for as capital leases. This computer equipment is included in property and equipment in the accompanying financial statements. Capital lease amortization of \$33,544 and \$8,097 is included in depreciation expense for the years ended June 30, 2001 and 2000, respectively.
- o As discussed in Note 2, the Company anticipates spending an additional \$1.6 million during fiscal 2002 to complete the e-Port(TM) software development.

Future minimum lease payments subsequent to June 30, 2001 under capital and noncancelable operating leases are as follows:

	Capital Leases	Operating Leases
	-----	-----
2002	\$ 88,349	\$ 174,000
2003	47,381	9,000
2004	11,689	3,000
	-----	-----
Total minimum lease payments	147,419	\$ 186,000
		=====
Less amount representing interest	23,396	

Present value of net minimum lease payments	124,023	
Less current obligations under capital leases	70,446	

Obligations under capital leases, less current portion	\$ 53,577	
	=====	

Notes to Financial Statements (continued)

8. Income Taxes

At June 30, 2001 and 2000, the Company had net operating loss carryforwards of approximately \$35,109,000 and \$23,481,000, respectively, to offset future taxable income expiring through approximately 2021. At June 30, 2001 and 2000, the Company recorded a deferred tax asset of approximately \$12,418,500 and \$9,374,000, respectively, which was reduced by a valuation allowance of the same amount as the realization of the deferred tax asset is not certain.

The timing and extent in 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.

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

	June 30	
	2001	2000
Deferred tax asset:		
Net operating loss carryforwards	\$ 13,237,000	\$ 8,895,000
Compensation expense on stock option re-pricing	170,500	170,500
Deferred research and development costs	125,000	216,000
Other	131,000	152,000
	-----	-----
	13,663,500	9,433,500
Deferred tax liabilities:		
Software Development Costs	(1,245,000)	(60,000)
	-----	-----
	12,418,500	9,373,500
Valuation allowance	(12,418,500)	(9,373,500)
	-----	-----
Deferred tax asset, net	\$ -	\$ -
	=====	=====

9. Senior Note Offerings

During September 1998, the Company's Board of Directors authorized a private placement offering (the "1999 Senior Note Offering"). Each unit, as amended, sold in the offering consisted of a 12% Senior Note in the principal amount of \$10,000, 2,000 1999-A Common Stock Purchase Warrants (each warrant entitled the holder to purchase one share of Common Stock at \$1.00 through December 31, 2001) and 1,000 shares of Series B Equity Participating Preferred Stock (Series B). A total of 461.8 units (as adjusted)

Notes to Financial Statements (continued)

9. Senior Note Offerings (continued)

were sold in the Senior Note Offering. The Series B was converted into 1,847,200 shares of Common Stock in connection with the Company's fiscal year 1999 reverse stock split. In October 1999, a conversion feature was added to the Senior Notes whereby the Notes were convertible into Common Stock at the rate of \$2.50 per share any time through the Senior Notes maturity of December 31, 2001.

During October 2000, the Company authorized a \$6,700,000 private placement offering ("2000 Senior Note Offering") of 670 units at a unit price of \$10,000. Each unit consists of a 2000 12% Convertible Senior Note in the principal amount of \$10,000 maturing December 31, 2003 and 2,000 shares of Restricted Common Stock. Each 2000 12% Senior Note is convertible into Common Stock at \$1.25 per share anytime through its maturity date. Holders of the 1999 12% Senior Notes had the right to exchange their 1999 Notes into 2000 Senior Notes. All payments of interest on the 2000 Notes can be used by the holder, at the holder's option, to purchase shares of Common Stock at \$1.00 per share (subsequently reduced in June 2001 to \$.80 per share and in September 2001 to \$.60 per share). During the year ended June 30, 2001, the Company issued 121,541 shares of Common Stock in lieu of cash payment for interest on the 2000 Senior Notes. In connection with the 2000 Senior Notes issued during fiscal year 2001, the Company issued 1,136,300 shares of Common Stock. The fair value of the Common Stock on the date such shares were granted of \$1,215,843 and the embedded beneficial conversion in the 2000 Senior Notes of \$409,104 was recorded as a debt discount. During fiscal year 1999, 545,000 shares of such rates were converted into 218,000 shares of Common Stock.

The Company sold 568.15 units in the 2000 Senior Note Offering during fiscal year 2001 of which 382.3 units (\$3,823,000) of the 1999 Senior Notes were exchanged for 2000 Senior Notes, 124.85 units were purchased with cash, resulting in gross proceeds of \$1,248,500 and 61 units were issued in exchange for services provided by consultants in the amount of \$610,000. The exchange of the 1999 Senior Notes to the 2000 Senior Notes was determined to be a substantial modification of the terms of the original debt instrument and, accordingly, the Company wrote-off the unamortized debt discount and other issuance costs associated with the exchange of the 1999 Senior Notes in the amount of \$863,000. Such amount has been reported as a non-cash extraordinary item in the fiscal year 2001 statement of operations.

Notes to Financial Statements (continued)

9. Senior Note Offerings (continued)

A summary of the 1999 Senior Note and the 2000 Senior Note activities are as follows:

	1999 Senior Notes	2000 Senior Notes
	-----	-----
Outstanding at June 30, 1999	\$ 4,668,000	\$ -
Cancelled	(50,000)	-
Converted into Common Stock	(545,000)	-
	-----	-----
Outstanding at June 30, 2000	4,073,000	-
Issued for cash and services	-	1,858,500
Exchange 1999 Senior Notes for 2000 Senior Notes	(3,823,000)	3,823,000
Converted into Common Stock	(10,000)	(25,000)
	-----	-----
Outstanding at June 30, 2001	240,000	5,656,500
Less: Unamortized debt discount and other issuance costs	(28,296)	(1,420,219)
	-----	-----
Balance at June 30, 2001	\$ 211,704	\$ 4,236,281
	=====	=====

The unamortized debt discount and other issuance costs represents fees paid in connection with these financings, the estimated fair value of the detachable equity instruments issued in connection with these financings, and any beneficial conversion embedded in the debt at the commitment date, which are being amortized over the remaining life of the respective debt instruments. Debt discount amortization, which has been reflected as interest expense in the statements of operations, was approximately \$765,000 and \$1,012,000 for the years ended June 30, 2001 and 2000, respectively.

10. Series A 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 vote and is convertible at any time into one 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 to the shareholders of record in equal parts on February 1 and August 1 of each year. Cumulative unpaid dividends at June 30, 2001 and 2000 amounted to \$4,621,150 and \$3,871,639, respectively. Cumulative unpaid

10. Series A Preferred Stock (continued)

dividends are convertible into common shares at \$10.00 per common share at the option of the shareholder. During the years ended June 30, 2001 and 2000, certain holders of the Preferred Stock converted 11,160 and 74,133 shares, respectively, into 11,160 and 74,133 shares of Common Stock, respectively. Certain of these shareholders also converted cumulative preferred dividends of \$87,030 and \$386,880, respectively, into 8,703 and 38,688 shares of Common Stock during the years ended June 30, 2001 and 2000, respectively. 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, 2001. 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 Transactions

During the year ended June 30, 2001, the Company's Board of Directors authorized the following private placement offerings of the Company's Common Stock to accredited investors:

- o 2000-B offering for the issuance of 895,000 shares of Common Stock at \$1.00 per share generating net proceeds of \$777,151 after deducting related offering costs;
- o 2001-A offering for the issuance of 450,000 shares of Common Stock at \$1.00 per share generating net proceeds of \$427,500 after deducting related offering costs;
- o 2001-B offering for the issuance of 8,400,000 shares of Common Stock at \$.60 per share. Through June 30, 2001, the Company issued 2,669,400 shares of Common Stock generating net proceeds of \$1,546,885 after deducting related offering costs. Additionally, each dollar invested entitled the purchaser to receive one Common Stock warrant at \$.50 per share expiring in December 2001 and one Common Stock warrant at \$.50 per share expiring in June 2002.

Notes to Financial Statements (continued)

11. Common Stock Transactions (continued)

During April 2001, the Company granted 6,000,000 fully vested options to a distributor in connection with the signing of a five-year distribution agreement. The options were granted in two 3,000,000 increments. Options in the first 3,000,000 increment had an exercise price of \$1.00 and expired 90 days after the parties entered into the distribution agreement. The second 3,000,000 had an exercise price of \$1.25 and expired 180 days after the parties entered into the distribution agreement. The estimated fair value of these options was \$420,000. The related pro rata charge will be recorded as a reduction of revenues or as selling, general, and administrative expense, to the extent revenues have not been earned, over the term of the distribution agreement.

During April 2001, the Company's Board of Directors authorized the granting of a fully vested warrant to purchase 75,000 shares of Common Stock to a consultant. The warrants are exercisable for a period of five years from the date of grant at \$1.25 per share. The warrants were issued in exchange for services and resulted in consulting expense of \$52,500, which was recorded during fiscal year 2001.

During March 2001, the Company issued a warrant to purchase 1,000,000 shares of Common Stock in connection with an OEM agreement between the Company and a distributor. The warrants initially had an exercise price of \$1.50 per share and were exercisable through June 30, 2001. This warrant was subsequently amended and the current exercise price is \$1.00 and the warrant expires on October 31, 2001 (as amended).

During February 2001, the Company's Board of Directors authorized the issuance of 200,000 shares of Common Stock to a consultant for services previously provided by the consultant to the Company. A charge of \$200,000 was recorded during fiscal year 2001 based on the fair value of the Company's Common Stock on the date the shares were granted.

During the year ended June 30, 2001, the Company issued 418,250 shares of Common Stock to certain employees and officers. The shares were fully vested on the date of grant; accordingly, the Company recorded compensation expense of \$474,995 during fiscal year 2001 based on the fair value of the Company's Common Stock on the date the shares were granted.

Notes to Financial Statements (continued)

11. Common Stock Transactions (continued)

During September 2000, the Company entered into an Investment Agreement with Swartz Private Equity, LLC for an equity line up to \$20 million over a period not to exceed three years. Investments are determined monthly based on the current market prices of the Company's Common Stock in accordance with the terms of the Agreement. The purchase price per share for Swartz would equal 91% of the market price of the Common Stock at the time of purchase, and additional warrants at the same price would be granted in an amount equal to 10% of the number of shares actually purchased. Swartz received 1,200,000 Commitment Warrants with 10 year terms at an initial exercise price of \$1.00, adjusted to lower market pricing if applicable, and will be granted additional Commitment Warrants at the same price and term, if required, to keep the number of Commitment Warrants equal to 5% (decreasing over a five year period to 0%) of the outstanding Common Stock of the Company on a fully diluted basis. An additional 380,828 warrants were granted during fiscal 2001 in connection with this antidilution provision. During the year ended June 30, 2001, Swartz purchased 29,010 shares of Common Stock pursuant to the Investment Agreement. There were no net proceeds to the Company from the sale of these shares after deducting the related cash offering expenses previously incurred.

During February 2000, the Company's Board of Directors awarded 120,000 shares of the Company's Common Stock, at \$2.00 per share, to certain executive officers. Pursuant to their employment agreements, these officers will be issued the Common Stock if employed by the Company on June 30, 2002. During fiscal year 2000, the Company recorded deferred compensation of \$240,000 in connection with these awards. Compensation expense of \$103,000 and \$34,000 has been recorded to reflect the amortization of the shares earned during the years ended June 30, 2001 and 2000, respectively.

During January 2000, the Company's Board of Directors authorized a \$2,000,000 private placement offering of 1,000,000 shares of restricted Common Stock at \$2.00 per share (the "2000-A" offering). This offering was later amended to 1,300,000 shares. During fiscal year 2000, 1,200,000 shares were sold, generating net proceeds to the Company of \$2,177,353.

During October 1999, the Company's Board of Directors authorized a private placement offering (the "1999-B" offering) to accredited investors of 150 units (later increased to 356 units by the Board of Directors) at a unit price of \$10,000. Each unit of the \$3,560,000 offering consists of 10,000 shares of restricted Common Stock at \$1.00 per

Notes to Financial Statements (continued)

11. Common Stock Transactions (continued)

share, and 10,000 1999-B Common Stock purchase warrants. During fiscal year 2000 all 356 units were sold, resulting in net proceeds of \$3,463,942 (\$3,560,000 less offering costs of \$96,058) to the Company. Each 1999-B Common Stock purchase warrant entitled the holder to purchase one share of restricted Common Stock for \$2.00 at any time through March 31, 2000. The 1999-B Common Stock purchase warrants were modified several times between January 2000 and August 2000 reducing their exercise price to \$1.00 per share and extending the expiration date of the warrants to December 31, 2000. Additionally, those 1999-B Common Stock purchase warrant holders who exercised their purchase warrants on or before December 31, 2000 were granted a further extension of the warrants' expiration date to March 31, 2001. As a result of these reductions in the exercise price, the Company's Board of Directors authorized the refunding of the \$1 reduction per warrant to those investors who exercised their warrants prior to the exercise price reduction.

During July 1999, the Board of Directors granted fully vested warrants to purchase 250,000 shares of the Company's Common Stock to two consultants. These warrants were issued in exchange for financial and public relations consulting services and resulted in consulting expense of \$99,000. The warrants are exercisable for two years from date of issuance. The exercise prices were modified by the Company on various dates since their issuance. During fiscal year 2000, the Company issued 134,000 shares of Common Stock upon the exercise of these warrants, resulting in gross proceeds of \$285,000. The exercise price of the remaining 116,000 warrants is \$1.00 per share.

A summary of Common Stock Warrant activity for fiscal years 2001 and 2000 is as follows:

	Warrants

Outstanding at June 30, 1999	1,212,200
Issued	3,807,400
Exercised	(1,308,350)

Outstanding at June 30, 2000	3,711,250
Issued	8,889,628
Exercised	(2,112,100)
Cancelled	(2,255,750)

Outstanding at June 30, 2001	8,233,028
	=====

Notes to Financial Statements (continued)

11. Common Stock Transactions (continued)

The exercise price and exercise dates of outstanding and exercisable warrants outstanding at June 30, 2001 is as follows:

Outstanding and Exercisable	Exercise Price	Expiration Date
2,669,400	\$ 0.50	December 31, 2001
2,669,400	0.50	June 30, 2002
1,200,000	0.91	August 29, 2010
1,000,000	1.00	August 30, 2001
377,927	1.00	April 24, 2011
125,400	1.00	August 3, 2001
2,901	1.03	April 30, 2011
75,000	1.25	June 30, 2006
100,000	2.00	June 30, 2002
4,000	3.00	February 28, 2002
1,500	4.00	July 2, 2002
2,500	4.00	March 5, 2003
5,000	4.00	August 17, 2003
8,233,028		

During the years ended June 30, 2001 and 2000, the Company's Board of Directors made numerous amendments to the outstanding Common Stock warrants whereby the Company reduced the exercise price and extend the expiration terms. The above table reflects the status of the warrants as of June 30, 2001.

At June 30, 2000, the Company had outstanding 11,740 Common Stock purchase rights. These Common Stock purchase rights, issued in 1993 and expired in fiscal 2001, allowed the holder to purchase shares of the Company's Common Stock at \$10.00 per share.

12. Stock Options

The Company's Board of Directors has granted options to employees to purchase shares of Common Stock at or above fair market value. The option term and vesting schedule are established by the contract that granted the option.

Notes to Financial Statements (continued)

12. Stock Options (continued)

The following table summarizes all stock option activity:

	Common Shares Under Options Granted	Exercise Price Per Share
Balance at June 30, 1999	917,100	\$.50-\$5.00
Granted	120,000	\$ 2.00
Canceled or Expired	(35,833)	\$ 1.50-\$4.50
Exercised	(16,500)	\$ 1.50-\$2.50
Balance at June 30, 2000	984,767	\$.50-\$5.00
Granted	6,935,000	\$ 1.00-\$1.50
Canceled or expired	(3,033,100)	\$ 1.00-\$2.50
Balance at June 30, 2001	4,886,667	\$.50-\$5.00

As discussed in Note 11, 3,000,000 of the outstanding options at June 30, 2001 expired unexercised subsequent to year end.

The price range of the outstanding and exercisable Common Stock options at June 30, 2001 is as follows:

Option Exercise Prices	Options Outstanding	Weighted Average Remaining Contract Life (Yrs.)	Options Exercisable
\$ 0.50	5,000	1.80	5,000
\$ 1.00	735,000	5.54	285,000
\$ 1.25	3,000,000	.18	3,000,000
\$ 1.50	310,000	1.96	310,000
\$ 2.00	656,167	3.45	656,167
\$ 2.50	84,000	1.96	84,000
\$ 4.50	81,500	1.35	81,500
\$ 5.00	15,000	.56	15,000
	4,886,667		4,436,667

Notes to Financial Statements (continued)

12. Stock Options (continued)

Pro forma information regarding net loss and net loss per common share determined as if the Company is accounting for stock options granted under the fair value method of SFAS 123 is as follows:

	June 30	
	2001	2000
Net loss applicable to common shares as reported under APB 25	\$ (11,792,785)	\$ (9,334,559)
Stock option expense per SFAS 123	(524,845)	(329,062)
Pro forma net loss	\$ (12,317,630)	\$ (9,663,621)
Loss per common share as reported	\$ (.70)	\$ (.92)
Pro forma net loss per common share	\$ (.74)	\$ (.95)

The fair value for the Company's stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for fiscal years 2001 and 2000; risk-free interest rate of 5.5% and 6.0%, respectively, an expected life of 2 years; no expected cash dividend payments on Common Stock and volatility factors of the expected market price of the Company's Common Stock, based on historical volatility of 1.100 and 1.332, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. As noted above, the Company's stock options are vested over an extended period. In addition, option models require the input of highly subjective assumptions including future stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can materially affect the fair value estimates, in management's opinion, the Black-Scholes model does not necessarily provide a reliable measure of the fair value of the Company's stock options. The Company's pro forma information reflects the impact of the reduction in price of certain stock options. The pro forma results above are not necessarily reflective of the effects of applying SFAS 123 in future periods.

Notes to Financial Statements (continued)

12. Stock Options (continued)

As of June 30, 2001, the Company has reserved shares of Common Stock for the following:

Exercise of Common Stock options	4,886,667
Exercise of Common Stock warrants	8,233,028
Conversions of Preferred Stock and cumulative Preferred Stock dividends	1,017,399
Conversions of Senior Notes	4,621,200

	18,758,294
	=====

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 has amended the Plan to include a Company matching contribution of \$.50 for each \$1.00 contributed, up to 10% of an employees contribution. The Company contribution for fiscal year ending June 30, 2001 was approximately \$51,000.

14. Subsequent Events

Through September 20, 2001, the Company completed the 2001-B Private Placement. An additional \$1,863,654 has been received in cash subsequent to June 30, 2001 related to this Private Placement.

Subsequent to June 30, 2001, the Company's Board of Directors initiated the 2001-C Private Placement for up to 2,000,000 shares to a limited number of accredited investors consisting of restricted Common Stock at \$.50 per share with one associated warrant to purchase Common Stock at \$.50 per share, expiring in March 2002.

Notes to Financial Statements (continued)

14. Subsequent Events (continued)

Subsequent to June 30, 2001, the Company executed a Securities Purchase Agreement with a private placement investment company for the purchase of \$225,000 of Convertible Debentures due in August 2003. The debentures bear interest at 9.75% and is payable monthly in arrears. The debenture is convertible at a price equal to the lesser of \$1.00 or 80% of the lowest closing bid price of the Company's Common Stock during the 20 day period prior to the conversion. At the time of conversion of the Debenture, the Company will issue to the holder warrants to purchase an amount of Common Stock equal to ten times the number of shares issued upon the conversion of the warrants. The warrants are exercisable at the related conversion price of the debenture.

As of September 20, 2001, the Company received \$100,000 of the \$225,000 Convertible Debentures with the remainder to be received when the Company completes the registration of the underlying conversion shares. The Company also issued 500,000 Common Stock warrants to the purchaser for \$50,000. These warrants are exercisable at the same terms as the underlying debentures and expire one year from the date a Registration Statement is declared effective.

Subsequent to June 30, 2001, the Company received \$29,000 of cash related to the subscription receivable recorded as an asset on the June 30, 2001 balance sheet.

15. Quarterly Financial Information (Unaudited)

The Company has restated its interim financial information for each of the interim periods in the fiscal year ended June 30, 2001. The restated financial statements reflect (i) the extraordinary loss on the exchange of debt during the second quarter, which was the period in which the exchange occurred, (ii) the cumulative effect of an accounting change during the second quarter related to the calculation of the beneficial conversion of the 1999 Senior Notes, and (iii) the capitalization of interest on the Company's software development project.

The following tables present unaudited quarterly information for the year ended June 30, 2001 as reported and as restated:

		As reported -----	
	Third Quarter -----	Second Quarter -----	First Quarter -----
Interest expense	\$ 370,314 =====	\$ 362,129 =====	\$ 363,258 =====
Loss before cumulative effect of accounting change and extraordinary item	\$(2,650,455)	\$(1,937,693)	\$(1,638,659)
Cumulative effect of accounting change	-	-	-
Extraordinary loss on exchange of debt	-	-	-
Net loss	\$(2,650,455) =====	\$(1,937,693) =====	\$(1,638,659) =====
Net loss per common share (basic and diluted)	\$(0.18)	\$(0.12)	\$(0.14)

		As Adjusted -----	
	Third Quarter -----	Second Quarter -----	First Quarter -----
Interest expense	\$ 244,996 =====	\$ 315,708 =====	\$ 340,009 =====
Loss before cumulative effect of accounting change and extraordinary item	\$(2,524,737)	\$(1,891,272)	\$(1,615,410)
Cumulative effect of accounting change	-	(821,000)	-
Extraordinary loss on exchange of debt	-	(863,000)	-
Net loss	\$(2,524,737) =====	\$(3,575,272) =====	\$(1,615,410) =====
Net loss per common share (basic and diluted)	\$(0.17) =====	\$(0.23) =====	\$(0.14) =====

Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

None

PART III

Item 9. Directors and Executive Officers of the Registrant

MANAGEMENT

Directors and Executive Officers

The Directors and executive officers of the Company, as of June 30, 2001, together with their ages and business backgrounds are as follows.

Name ----	Age ---	Position(s) Held -----
George R. Jensen, Jr.	52	Chief Executive Officer, Chairman of the Board of Directors
Stephen P. Herbert	38	President, Director
Haven Brock Kolls, Jr.	35	Vice President - Research and Development
Leland P. Maxwell	54	Senior Vice President, Chief Financial Officer, Treasurer
Michael K. Lawlor	39	Vice-President-Marketing and Sales
William W. Sellers (1)(2)	79	Director
Henry B. duPont Smith	39	Director
William L. Van Alen, Jr. (1)(2)	67	Director
Steven Katz (1)	52	Director
Douglas M. Lurio (2)	44	Director
Edwin R. Boynton	46	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 Chief Executive Officer and Director of the Company since 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 of the Company in April 1996, and joined the Company on a full-time basis on May 6, 1996. Prior to joining the Company 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.

Haven Brock Kolls, Jr., joined the Company on a full-time basis in May 1994 and was elected an executive officer in August 1994. From January 1992 to April 1994, Mr. Kolls was Director of Engineering for International Trade Agency, Inc., an engineering firm specializing in the development of control systems and management software packages for use in the vending machine industry. Mr. Kolls was an electrical engineer for Plateau Inc. from 1988 to December 1992. His responsibilities included mechanical and electrical computer-aided engineering, digital electronic hardware design, circuit board design and layout, fabrication of system prototypes and software development. Mr. Kolls is a graduate of the University of Tennessee with a Bachelor of Science Degree in Engineering.

Leland P. Maxwell joined the Company on a full-time basis on February 24, 1997 as Chief Financial Officer, Senior Vice President and Treasurer. Prior to joining the Company, Mr. Maxwell was the corporate controller for Klearfold, Inc., a privately-held manufacturer of specialty consumer packaging. From 1992 to 1996, Mr. Maxwell was the regional controller for Jefferson Smurfit/Container Corporation of America, a plastic packaging manufacturer, and from 1986 to 1992 was the divisional accounting manager. Prior thereto, he held financial positions with Safeguard Business Systems and Smithkline-Beecham. Mr. Maxwell received a Bachelor of Arts degree in History from Williams College and a Master of Business Administration-Finance from The Wharton School of the University of Pennsylvania. Mr. Maxwell is a Certified Public Accountant.

Michael K. Lawlor joined USA Technologies in 1997. In September of 1999, he was promoted to Senior Vice President, Sales and Marketing. Mr. Lawlor joined PepsiCo in their sales department in 1986 after graduating from the University of Texas with a degree in Marketing. He rose through the ranks at PepsiCo over the course of nine years, and departed the company in 1995 as a National Accounts Sales Manager. After leaving PepsiCo, Mr. Lawlor joined Aladdin Industries, a leading manufacturer of promotional drinkware, as Director of Restaurant Sales. During his tenure at Aladdin, he was responsible for securing Coca-Cola's business at the 1996 Summer Olympics in Atlanta, Georgia.

William W. Sellers joined the Board of Directors of the Company in May 1993. Mr. Sellers founded The Sellers Company in 1949 which has been nationally recognized as the leader in the design and manufacture of state-of-the-art equipment for the paving industry. Mr. Sellers has been awarded five United States patents and several Canadian patents pertaining to this equipment. The Sellers Company was sold to Mecatron International in 1985. Mr. Sellers is Chairman of the Board of Sellers Process Equipment Company which sells products and systems to the food and other industries. Mr. Sellers is actively involved in his community. Mr. Sellers received his undergraduate degree from the University of Pennsylvania.

Henry B. duPont Smith joined the Board of Directors of the Company in May 1994. Since January 1992, Mr. Smith has been a Vice President of The Rittenhouse Trust Company and since September 1991 has been a Vice President of Rittenhouse Financial Services, Inc. From September 1991 to December 1992, he was a registered representative of Rittenhouse Financial Securities, Inc. Mr. Smith was an Assistant Vice President of Mellon Bank, N.A. from March 1988 to July 1991, and an investment officer of Provident National Bank from March 1985 to March 1988. Mr. Smith received a Bachelor of Arts degree in Accounting in 1984 from Franklin & Marshall College.

William L. Van Alen, Jr., joined the Board of Directors of the Company 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, Mr. Van Alen has 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 Price Waterhouse & 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.

Douglas M. Lurio joined the Board of Directors of the Company 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.

Edwin R. Boynton joined the Board of Directors in July 1999. He is a partner of Stradley Ronon Stevens & Young LLP, and is a member of and currently the chair of the firm's estates department. Mr. Boynton received his bachelor of arts degree from Harvard University in 1976 and his Juris Doctor degree from Duke University in 1979.

Item 10. Executive Compensation

The following table sets forth certain information with respect to compensation paid or accrued by the Company during the fiscal years ended June 30, 1999, June 30, 2000 and June 30, 2001 to each of the executive officers and the other employee of the Company named below. Except as set forth below, no individual who was serving as an executive officer of the Company at the end of the fiscal years ended June 30, 1999, June 30, 2000 or June 30, 2001 received salary and bonus in excess of \$100,000 in any such fiscal year.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation			Long Term Compensation	
		Salary	Bonus (1)	Other Annual Compensation	Restricted Stock Awards	Securities Underlying Options
George R. Jensen, Jr., Chief Executive Officer,	2001	\$135,000	\$140,000	--	--	300,000
	2000	\$117,500	\$ 0	--	\$80,000 (2)	180,000
	1999	\$100,000	\$ 0	--	--	--
Stephen P. Herbert, President	2001	\$125,000	\$134,400	--	--	80,000
	2000	\$107,500	\$ 94,000	--	\$80,000 (2)	45,000
Leland P. Maxwell, Chief Financial Officer, Treasurer	2001	\$108,000	\$ 44,240	--	--	50,000
	2000	\$ 99,000	\$ 29,000	--	--	15,000
H. Brock Kolls, Senior Vice President, Research & Development	2001	\$120,000	\$ 97,440	--	--	80,000
	2000	\$105,000	\$ 44,000	--	\$80,000 (2)	30,000
Michael K. Lawlor, Senior Vice President, Sales and Marketing	2001	\$100,000	\$ 38,640	--	--	50,000
	2000	\$ 83,200	\$ 35,500	\$43,000 (3)	--	20,000
Adele H. Hepburn Director of Investor Relations	2001	\$ 91,000	\$171,700	--	--	--
	2000	\$ 91,000	\$147,800	--	--	--
	1999	\$ 91,000	\$ 51,500	--	--	--

- (1) For fiscal year 2000, represents shares of Common Stock issued to the executive officers valued at \$2.00 per share, the closing bid price on the date of issuance. For Mr. Lawlor, the bonus also includes a \$5,500 sales commission. For fiscal year 2001, represents shares of Common Stock issued to the executive officers valued at \$1.12, the closing price on the effective day of authorization. For Mr. Lawlor, the bonus also includes a \$1,265 sales commission. The bonus amounts for all fiscal years for Adele Hepburn consist of cash payments from the Company.
- (2) Represents shares of Common Stock issued to such executive officers if employed by the Company on June 30, 2002. The shares have been valued at \$2.00 per share, the closing bid price on the date of grant.
- (3) Represents payment by the Company of relocation expenses.

The following table sets forth information regarding stock options granted during the fiscal year 2001 to the Company's executive officers named below:

OPTION GRANTS DURING FISCAL YEAR ENDED JUNE 30, 2001

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price Per Share	Expiration Date
George R. Jensen, Jr.	200,000	47.2%	\$1.50	June 30, 2003
	33,333		\$1.00	October 20, 2006
	33,333		\$1.00	July 20, 2007
	33,334		\$1.00	April 20, 2008
Stephen P. Herbert	26,667	12.6%	\$1.00	October 20, 2006
	26,667		\$1.00	July 20, 2007
	26,666		\$1.00	April 20, 2008
H. Brock Kolls	26,667	12.6%	\$1.00	October 20, 2006
	26,667		\$1.00	July 20, 2007
	26,666		\$1.00	April 20, 2008
Leland P. Maxwell	16,667	7.9%	\$1.00	October 20, 2006
	16,667		\$1.00	July 20, 2007
	16,666		\$1.00	April 20, 2008
Michael K. Lawlor	16,667	7.9%	\$1.00	October 20, 2006
	16,667		\$1.00	July 20, 2007
	16,666		\$1.00	April 20, 2008

Executive Employment Agreements

The Company has entered into an employment agreement with Mr. Jensen which expires June 30, 2002. The Agreement is automatically renewed from year to year unless canceled by Mr. Jensen or the Company. The agreement provides for an annual base salary of \$135,000 effective March 1, 2000. Mr. Jensen is entitled to receive such bonus or bonuses as may be awarded to him by the Board of Directors. In determining whether to pay such a bonus, the Board would use its subjective discretion. 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. The agreement provides that if Mr. Jensen is employed by the Company on June 30, 2002, the Company will issue to him 40,000 shares of Common Stock.

The agreement also grants to Mr. Jensen in the event a "USA Transaction" (as defined below) occurs after the date thereof that number of shares of Common Stock as shall when issued to him equal five percent (increased in June 1999 to eight percent) of all the then issued and outstanding shares of Common Stock (the "Rights"). Mr. Jensen is not required to pay any additional consideration for such shares. At the time of any USA Transaction, all of the shares of Common Stock underlying the Rights 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 Rights 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 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 Transactions 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 January 21, 1999, Mr. Jensen purchased ten (10) units of the 1999 Senior Note placement offering for \$100,000. In full payment for such Units, Mr. Jensen has agreed to forego any base salary otherwise payable to him under his employment agreement during the period of time commencing on April 1, 1999 and ending on June 30, 2000, or such longer period of time as may be required based upon his monthly net base salary after all applicable withholding taxes and other deductions. At June 30, 2000, \$12,199 was outstanding. Subsequent to year end, the \$12,199 has been received in full.

The Company has entered into a one-year employment agreement with Mr. Herbert which expires on April 30, 2002. The agreement is automatically renewed from year to year thereafter unless canceled by Mr. Herbert or the Company. The Agreement provides for an annual base salary of \$125,000 per year effective March 1, 2000. Mr. Herbert is entitled to receive such bonus or bonuses as the Board of Directors may award to him. 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. The agreement provides that if Mr. Herbert is employed by the Company on June 30, 2002, the Company will issue to him 40,000 shares of Common Stock.

Mr. Kolls has entered into a one-year employment agreement with the Company which expires on April 30, 2002, and is automatically renewed from year to year thereafter unless canceled by Mr. Kolls or the Company. The agreement provides for an annual base salary of \$120,000 per year effective March 1, 2000. Mr. Kolls is also entitled to receive such bonus or bonuses as may be awarded to him by the Board of Directors. The Agreement requires Mr. Kolls 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 his agreement and for a period of one year thereafter. The agreement provides that if Mr. Kolls is employed by the Company on June 30, 2002, the Company will issue to him 40,000 shares of Common Stock.

Mr. Maxwell has entered into an employment agreement with the Company which expires on June 30, 2002, and is automatically renewed from year to year thereafter unless cancelled by Mr. Maxwell or the Company. The agreement provides for an annual base salary of \$108,000 per year effective March 1, 2000. Mr. Maxwell is also entitled to receive such bonus or bonuses as the Board of Directors may award to him. The Agreement requires Mr. Maxwell 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. Lawlor has entered into an employment agreement with the Company which expires on June 30, 2002, and is automatically renewed from year to year thereafter unless cancelled by Mr. Lawlor or the Company. The agreement provides for an annual base salary of \$100,000 per year effective March 1, 2000. Mr. Lawlor is also entitled to receive such bonus or bonuses as the Board of Directors may award to him. The Agreement requires Mr. Lawlor 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.

Director Compensation and Stock Options

Members of the Board of Directors do not currently receive any cash compensation for serving on the Board of Directors or any Committee thereof.

In July 1993, the Company issued to each of Messrs. Kapourellos, Sellers, and Van Alen fully vested options to purchase 10,000 shares of Common Stock at an exercise price of \$2.50 per share. In March 1998, the expiration date of these options was extended from June 30, 1998 to June 30, 2000 and in April 1998, the exercise price was reduced from \$2.50 to \$1.50.

In March 1995, the Company issued to Mr. Smith fully vested options to purchase 10,000 shares of Common Stock, to Mr. Sellers fully vested options to purchase 5,500 shares of Common Stock, to Mr. Kapourellos fully vested options to purchase 7,000 shares of Common Stock, and to Mr. Van Alen fully vested options to purchase 2,500 shares of Common Stock. The exercise price of these options is \$2.50 per share and they must be exercised on or before February 29, 2000. In April 1998, the exercise price of these options was reduced from \$2.50 to \$1.50.

In March 1998, the Company extended the expiration date of the following options to purchase shares of Common Stock from June 30, 1998 to the close of business on June 30, 2000: Peter G. Kapourellos - 10,000 options; William W. Sellers - 10,000 options; Keith L. Sterling - 10,000 options; and William L. Van Alen, Jr. - 10,000 options.

In April 1998, the Company reduced from \$2.50 to \$1.50 the exercise price of the following options to purchase Common Stock issued to the following Directors of the Company: Peter G. Kapourellos - 17,000 options; William W. Sellers - 15,500 options; William L. Van Alen, Jr. - 12,500 options; and Henry B. duPont Smith - 10,000 options.

During June and July 1999, the Company granted 10,000 options to each of the seven Directors who were not executive officers of the Company. Each option is exercisable at \$2.00 per share at any time for five years following the vesting thereof.

In February 2001, the Board of Directors granted a total of 300,000 options to purchase Common Stock at \$1.00 per share to outside members of the Board. Of these, 120,000 options vested immediately; 90,000 options vested on June 30, 2001; and 90,000 will vest on June 30, 2002. The options may be exercised at any time within five years following the vesting.

All of the Common Stock underlying the options held by all Directors was registered by the Company under the Act, for resale by the holder thereof. Such registration was at the Company's cost and expense.

The Board of Directors is responsible for awarding stock options. Such awards are made in the subjective discretion of the Board. Other than the repricing of the options by the Company in April 1998, the exercise price of all the above options represents on the date of issuance of such options an amount equal to or in excess of the market value of the Common Stock issuable upon the exercise of the options. In connection with the April 1998 repricing of stock options, the exercise prices of all these fully vested options were below the fair market value on the date of repricing, therefore, the Company recorded a charge to compensation expense during fiscal year 1998.

All of the foregoing options are non-qualified stock options and not part of a qualified stock option plan and do not constitute incentive stock options as such term is defined under Section 422 of the Internal Revenue Code, as amended, and are not part of an employee stock purchase plan as described in Section 423 thereunder.

Executive Stock Options

In August 1999, the Company issued to an executive officer fully vested options to acquire up to 20,000 shares of Common Stock at \$2.00 per share. The options are exercisable at any time within five years following issuance. The Company issued the options pursuant to the exemption from registration set forth in Section 4(2) of the Act. The Company registered for resale under the Act the Common Stock underlying the options.

In November 1999, the Company issued fully vested options to purchase an aggregate of 90,000 shares of Common Stock to its executive officers as follows: Stephen P. Herbert - 45,000 options; Haven Brock Kolls - 30,000 options; and Leland Maxwell - 15,000 options. Each option is exercisable at \$2.00 per share at any time within five years following issuance.

In October 2000, the Company issued to George R. Jensen, Jr., fully vested options to acquire up to 200,000 shares of Common Stock at \$1.50 per share. The options were exercisable at any time within two years following issuance. In February 2001, the Company extended the expiration date of these options until June 30, 2003.

In April 2001, the Company issued the following options to purchase an aggregate of 360,000 shares of Common Stock to its executive officers as follows: George R. Jensen, Jr. - 100,000; Stephen P. Herbert - 80,000 options; Haven Brock Kolls - 80,000 options; Leland Maxwell - 50,000 options; and Michael Lawlor - 50,000 options. Each option is exercisable at \$1.00 per share at any time within five years following vesting. The options vest one-third in October 2001, one-third in July 2002 and the balance in April 2003.

The Board of Directors is responsible for awarding stock options. Such awards are made in the subjective discretion of the Board. The exercise price of all the above options represents on the date of issuance of such options an amount equal to or in excess of the market value of the Common Stock issuable upon the exercise of the options.

All of the foregoing options are non-qualified stock options and not part of a qualified stock option plan and do not constitute incentive stock options as such term is defined under Section 422 of the Internal Revenue Code, as amended, and are not part of an employee stock purchase plan as described in Section 423 thereunder.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Common Stock

The following table sets forth, as of June 30, 2001, the beneficial ownership of the Common Stock of each of the Company's directors and executive officers, 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 -----	Number of Shares of Common Stock Beneficially Owned(1) -----	Percent of Class(2) -----
George R. Jensen, Jr. 517 Legion Road West Chester, Pennsylvania 19382	755,000 shares(3)	1.90%
Stephen P. Herbert 536 West Beach Tree Lane Strafford, Pennsylvania 19087	378,050 shares(4)	*
Haven Brock Kolls, Jr. 1573 Potter Drive Pottstown, PA 19464	328,850 shares(5)	*
Leland P. Maxwell 401 Dartmouth Road Bryn Mawr, Pennsylvania 19010	137,050 shares(6)	*
Michael K. Lawlor 131 Lisa Drive Paoli, PA 19301	99,550 shares(7)	*
Edwin R. Boynton 104 Leighton Drive Bryn Mawr, Pennsylvania 19010	140,500 shares(8)	*
Steven Katz 20 Rebel Run Drive East Brunswick, New Jersey 08816	45,000 shares(9)	*
Douglas M. Lurio 2005 Market Street, Suite 2340 Philadelphia, Pennsylvania 19103	113,713 shares(10)	*
William W. Sellers 394 East Church Road King of Prussia, Pennsylvania 19406	519,075 shares(11)	1.31%
Henry B. duPont Smith 350 Mill Bank Road Bryn Mawr, Pennsylvania 19010	77,000 shares(12)	*
William L. Van Alen, Jr. Cornerstone Entertainment, Inc. P.O. Box 727 Edgemont, Pennsylvania 19028	77,500 shares(13)	*
Marconi Online Systems, Inc. 120 Interstate North Parkway, Suite 118 Atlanta, GA 30339	3,000,000 shares(14)	7.55%
All Directors and Executive Officers As a Group (11 persons)	2,706,288 shares(15)	6.81%

*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, or shares of Common Stock issuable upon exercise of options currently exercisable, or exercisable within 60 days of June 30, 2001, are deemed to be beneficially owned for purposes hereof.

(2) On June 30, 2001 there were 21,450,755 shares of Common Stock and 555,284 shares of Series A 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 555,284 shares of Common Stock, that all of the options to acquire Common Stock which have been issued and are fully vested as of June 30, 2001 (or within 60-days of June 30, 2001) have been converted into 4,436,667 shares of Common Stock. For purposes of computing such percentages it has also been assumed that all of the remaining Purchase Warrants have been exercised for 8,233,028 shares of Common Stock; that all of the Senior Notes have been converted into 4,621,200 shares of Common Stock; and that all of the accrued and unpaid dividends on the Preferred Stock as of June 30, 2001 have been converted, into 462,115 shares of Common Stock. Therefore, for purposes of computing the percentages under this table, there are 39,759,049 shares of Common Stock issued and outstanding.

(3) Includes 380,000 shares of Common Stock issuable upon the exercise of options, 160,000 shares issuable upon conversion of Senior Notes, and 10,000 shares of Common Stock beneficially owned by his spouse. Does not include the right granted to Mr. Jensen under his Employment Agreement to receive eight percent (8%) of the issued and outstanding Common Stock upon the occurrence of a USA Transaction (as defined therein). See "Executive Employment Agreements".

(4) Includes 210,000 shares of Common Stock issuable to Mr. Herbert upon the exercise of options, and 1,000 shares of Common Stock beneficially owned by his child.

(5) Includes 170,000 shares of Common Stock issuable to Mr. Kolls upon the exercise of options, 18,000 shares of Common Stock owned by his spouse, and 24,000 shares issuable to his spouse upon conversion of her Senior Note.

(6) Includes 70,000 shares of Common Stock issuable to Mr. Maxwell upon the exercise of options.

(7) Includes 50,000 shares of Common Stock issuable to Mr. Lawlor upon exercise of options.

(8) Includes 5,500 shares of Common Stock issuable upon conversion of the 5,500 shares of Series A Preferred Stock. Includes 45,000 vested shares of Common Stock issuable upon exercise of options, and 16,000 shares issuable upon conversion of his Senior Note. Does not include any shares of Common Stock issuable upon conversion of any accrued and unpaid dividends in the Series A Preferred Stock.

(9) Includes 45,000 shares of Common Stock issuable upon exercise of options.

(10) Includes 42,213 shares of Common Stock held jointly with Mr. Lurio's spouse, 45,000 shares of Common Stock issuable upon exercise of options, and 24,000 shares issuable upon conversion of Senior Notes.

(11) Includes 21,245 shares of Common Stock owned by the Sellers Pension Plan of which Mr. Sellers is a trustee, 4,651 shares of Common Stock owned by Sellers Process Equipment Company of which he is a Director, and 9,929 shares of Common Stock owned by Mr. Seller's wife. Includes 60,500 shares of Common Stock issuable upon exercise of options, 40,000 shares issuable upon conversion of his Senior Notes.

(12) Includes 12,000 shares of Common Stock issuable upon conversion of the 12,000 shares of Preferred Stock beneficially owned by Mr. Smith. Includes 55,000 shares of Common Stock issuable upon exercise of options. Does not include any shares of Common Stock issuable upon conversion of any accrued and unpaid dividends on the Series A Preferred Stock.

(13) Includes 57,500 shares of Common Stock issuable to Mr. Van Alen upon exercise of options.

(14) Pursuant to the Alliance Agreement entered into between Marconi and USA on April 20, 2001, Marconi had the option to purchase up to 3,000,000 shares of Common Stock at \$1.25 per share at any time through September 5, 2001. The option expired unexercised on that date.

(15) Includes all shares of Common Stock described in footnotes (2) through (13) above.

Preferred Stock

The following table sets forth, as of June 30, 2001 the beneficial ownership of the Preferred Stock by the Company's directors and executive officers, 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 Preferred Stock. Except as otherwise indicated, the Company believes that the beneficial owners of the Preferred 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 -----	Number of Shares of Preferred Stock Beneficially Owned -----	Percent of Class(1) -----
Edwin R. Boynton 104 Leighton Avenue Bryn Mawr, Pennsylvania 19010	5,500	*
Henry B. duPont Smith 350 Mill Bank Road Bryn Mawr, Pennsylvania 19010	12,000(2)	2.2%
All Directors and Executive Officers As a Group (11 persons) -----	17,500	3.2%

*Less than one percent (1%)

(1) There were 555,284 shares of Preferred Stock issued and outstanding as of June 30, 2001.

(2) Includes 2,000 shares of Preferred Stock held by trusts for the benefit of Mr. Smith's children of which he is a trustee.

Item 12. Certain Relationships and Related Transactions

On January 21, 1999, Mr. Jensen purchased ten units pursuant to the Company's private placement offering of Senior Notes for \$100,000. In full payment, Mr. Jensen has agreed to forgo any base salary otherwise payable to him under his employment agreement during the period of time commencing on April 1, 1999 and ending on June 30, 2000, or such longer period as required. Mr. Jensen made full payment by June 30, 2000.

In June and July 1999, the Company issued options to purchase an aggregate of 470,000 shares of Common Stock to its executive officers and an aggregate of 70,000 shares of Common Stock to its directors who were not executive officers. Each option is exercisable at \$2.00 per share of Common Stock. See "Management - Director Compensation and Stock Options" and "Executive Stock Options".

In July 1999, the Company extended the expiration dates until June 30, 2001 of the options to acquire Common Stock held by the following directors, officers, and employees: Adele Hepburn - 77,000 options; H. Brock Kolls - 20,000 options; Henry duPont Smith - 10,000 options; William Sellers - 15,500 options; Peter Kapourellos - 17,000 options; and William Van Alen - 12,500 options. All of the foregoing options would have expired in the first two calendar quarters of the year 2000 or the first calendar quarter of year 2001. In February, 2001, all these options were further extended until June 30, 2003, and in addition the expiration dates of the following additional options were also extended to June 30, 2003: H. Brock Kolls - 20,000 options; Stephen Herbert - 40,000 options; Michael Lawlor - 3,750 options; George Jensen - 200,000 options.

During the fiscal year ended June 30, 2000 and June 30, 2001, the Company paid Lurio & Associates, P.C., of which Mr. Lurio is President, professional fees of approximately \$196,000 and \$220,000 respectively, for legal services rendered to the Company by such law firm.

In August 1999, the Company issued to Stephen P. Herbert, President of the Company, an aggregate of 25,000 shares of Common Stock. Such Common Stock was issued in exchange for services rendered or to be rendered to the Company by Mr. Herbert. The shares of Common Stock were valued at \$2.00 per share, the closing bid price on the date of the grant. The Company has registered these shares under the Act.

In August 1999, the Company issued to Leland P. Maxwell, Chief Financial Officer of the Company, an aggregate of 10,500 shares of Common Stock. Such Common Stock was issued in exchange for services rendered or to be rendered to the Company by Mr. Maxwell. The shares of Common Stock were valued at \$2.00 per share, the closing bid price on the date of the grant. The Company has agreed to register these shares under the Act.

In August 1999, the Company issued to Michael Lawlor, Vice President of the Company, an aggregate of up to 25,000 shares of Common Stock. Such Common Stock was issued in exchange for services rendered and to be rendered to the Company by Mr. Lawlor. The shares of Common Stock were valued at \$2.00 per share, the closing bid price on the date of the grant. The Company has registered these shares under the Act.

In August 1999, the Company also issued to Mr. Lawlor fully vested options to acquire up to 20,000 shares of Common Stock at \$2.00 per share. The options are exercisable at any time within five years following issuance. The Company has agreed to register under the Act the Common Stock underlying the options for resale by Mr. Lawlor.

In August 1999, the Company issued to Joseph Donahue, Vice President of the Company, an aggregate of 15,000 shares of Common Stock. Such Common Stock will be issued in exchange for services to be rendered to the Company by Mr. Donahue. The shares of Common Stock were valued at \$2.00 per share, the closing bid price on the date of the grant. The Company has agreed to register these shares under the Act.

In August 1999, the Company issued to each of Stephen Herbert, President, Leland Maxwell, Chief Financial Officer, and Haven Brock Kolls, Vice President Research and Development, 2,000 shares of Common Stock. Such Common Stock was issued in exchange for services rendered or to be rendered to the Company. The shares of Common Stock were valued at \$2.00 per share, the closing bid price on the date of the grant. The Company has registered these shares under the Act.

In November 1999, the Company issued fully vested options to purchase an aggregate of 90,000 shares of Common Stock to its executive officers as follows: Stephen P. Herbert - 45,000 options; Haven Brock Kolls - 30,000 options; and Leland Maxwell - 15,000 options. Each option is exercised at \$2.00 per share of Common Stock at any time within five years following issuance. The Company has agreed to register the Common Stock underlying these options for resale under the Act.

During February 2000, the Company issued an aggregate of 87,500 shares of Common Stock to five executive officers: George Jensen - 25,000 shares; Stephen Herbert - 20,000 shares; Haven Brock Kolls - 20,000 shares; Leland Maxwell - 12,500 shares; Michael Lawlor - 10,000 shares. Such shares were issued as a bonus for services rendered and to be rendered for the calendar year 2000. The shares were valued at \$2.00 per share, the closing bid price on the date of issuance. The Company has registered these shares under the Act.

In February 2000, in connection with his relocation to the Philadelphia, Pennsylvania area, the Company agreed to pay the costs of relocation for Michael Lawlor, Vice President of the Company. As of June 30, 2000, a total of approximately \$43,000 has been paid for this purpose.

In April, 2000, the Board of Directors authorized the Company to issue up to 25,000 shares of Common Stock to current or future employees, directors or consultants as compensation or bonus. Through June 30, 2001, all shares have been issued.

In October 2000, the Company issued to George R. Jensen, Jr., fully vested options to acquire up to 200,000 shares of Common Stock at \$1.50 per share. The options were exercisable at any time within two years following issuance. In February 2001, the Company extended the expiration date of these options until June 30, 2003.

In February 2001, the Board of Directors granted a total of 300,000 options to purchase Common Stock at \$1.00 per share to outside members of the Board. Of these, 120,000 options vested immediately; 90,000 options vested on June 30, 2001; and 90,000 will vest on June 30, 2002. The options may be exercised at any time within five years following the vesting.

In April 2001, the Company issued the following options to purchase an aggregate of 360,000 shares of Common Stock to its executive officers as follows: George R. Jensen, Jr. - 100,000; Stephen P. Herbert - 80,000 options; Haven Brock Kolls - 80,000 options; Leland Maxwell - 50,000 options; and Michael Lawlor - 50,000 options. Each option is exercisable at \$1.00 per share at any time within five years following vesting. The options vest one-third in October 2001, one-third in July 2002 and the balance in April 2003. The Company also issued the following shares of Common Stock to its executive officers as follows: George R. Jensen, Jr. - 125,000 shares; Stephen P. Herbert - 120,000 shares; Haven Brock Kolls - 87,000 shares; Leland Maxwell - 39,500 shares; and Michael Lawlor - 34,500 shares.

In September 2001, the Company paid a bonus to Adele Hepburn in the amount of \$200,000 consisting of 33.33 units of the 2001-B private placement offering which closed on September 14, 2001.

PART IV

Item 13. Exhibits, Financial Statement Schedules and Reports on Form 8-K

- a. Financial Statements filed herewith at Item 7 hereof Include balance sheets at June 30, 2001 and 2000 and statements of operations, shareholders' deficit, and cash flows, for the years ended June 30, 2001 and 2000. All other schedules for which provision is made in regulation S-B of the Commission are not required under the related instruction or are not applicable and therefore have been omitted.
- b. During the last quarter of the fiscal year ended June 30, 2001, the Company filed a Form 8-K on April 24, 2001 and June 4, 2001 (as updated on September 25, 2001), each reporting an event under Item 5.
- c. The Exhibits filed as part of, or incorporated by reference into this Form 10-KSB are listed below.

Exhibit Number	Description
3.1	Articles of Incorporation of Company filed on January 16, 1992 (Incorporated by reference to Exhibit 3.1 to Form SB-2 Registration Statement No. 33-70992).
3.1.1	First Amendment to Articles of Incorporation of the Company filed on July 17, 1992 (Incorporated by reference to Exhibit 3.1.1 to Form SB-2 Registration Statement No. 33-70992).
3.1.2	Second Amendment to Articles of Incorporation of the Company filed on July 27, 1992 (Incorporated by reference to Exhibit 3.1.2 to Form SB-2 Registration Statement No. 33-70992).
3.1.3	Third Amendment to Articles of Incorporation of the Company filed on October 5, 1992 (Incorporated by reference to Exhibit 3.1.3 to Form SB-2 Registration Statement No. 33-70992).

- 3.1.4 Fourth Amendment to Articles of Incorporation of the Company filed on October 18, 1993 (Incorporated by reference to Exhibit 3.1.4 to Form SB-2 Registration Statement No. 33-70992).
- 3.1.5 Fifth Amendment to Articles of Incorporation of the Company filed on June 7, 1995(Incorporated by Reference to Exhibit 3.1 to Form SB-2 Registration Statement No. 33-98808).
- 3.1.6 Sixth Amendment to Articles of Incorporation of the Company filed on May 1, 1996 (Incorporated by Reference to Exhibit 3.1.6 to Form SB-2 Registration Statement No. 333-09465).
- 3.1.7 Seventh Amendment to Articles of Incorporation of the Company filed on March 24, 1997 (Incorporated by reference to Exhibit 3.1.7 to Form SB-2 Registration Statement No. 333-30853).
- 3.1.8 Eighth Amendment to Articles of Incorporation of the company filed on July 5, 1998 (Incorporated by reference to Exhibit 3.1.8 to Form 10-KSB for the fiscal year ended June 30, 1998).
- 3.1.9 Ninth Amendment to Articles of Incorporation of the Company filed on October 1, 1998 (Incorporated by reference to Exhibit 3.1.9 to Form SB-2 Registration Statement No. 333-81591).
- 3.1.10 Tenth Amendment to Articles of Incorporation of the Company filed on April 12, 1999 (Incorporated by reference to Exhibit 3.1.10 to Form SB-2 Registration Statement No. 333-81591).
- 3.1.11 Eleventh Amendment to Articles of Incorporation of the Company filed on June 7, 1999 (Incorporated by reference to Exhibit 3.1.11 to Form SB-2 Registration Statement No. 333-81591).
- 3.2 By-Laws of the Company (Incorporated by reference to Exhibit 3.2 to Form SB-2 Registration Statement No. 33-70992).
- 4.1 Warrant Agreement dated as of June 21, 1995 between the Company and American Stock Transfer and Trust Company (Incorporated by reference to Exhibit 4.1 to Form SB-2 Registration Statement N. 33-98808, filed October 31, 1995).
- 4.2 Form of Warrant Certificate (Incorporated by reference to Exhibit 4.2 to Form SB-2 Registration Statement, No. 33-98808, filed October 31, 1995).
- 4.3 1996 Warrant Agreement dated as of May 1, 1996 between the Company and American Stock Transfer and Trust Company (Incorporated by reference to Exhibit 4.3 to Form SB-2 Registration Statement No. 333-09465).
- 4.4 Form of 1996 Warrant Certificate (Incorporated by reference to Exhibit 4.4 to Form SB-2 Registration Statement No. 333-09465).

- 4.5 Form of 1997 Warrant (Incorporated by reference to Exhibit 4.1 to Form SB-2 Registration Statement No. 333-38593, filed February 4, 1998).
- 4.6 Form of 12% Senior Note (Incorporated by reference to Exhibit 4.6 to Form SB-2 Registration Statement No. 333-81591).
- 4.7 Warrant Certificate of I. W. Miller Group, Inc. (Incorporated by reference to Exhibit 4.7 to Form SB-2 Registration Statement No. 84513).
- 4.8 Warrant Certificate of Harmonic Research, Inc. (Incorporated by reference to Exhibit 4.8 to Form SB-2 Registration Statement No. 333-84513).
- 4.9 Registration Rights Agreement dated August 3, 2001 by and between the Company and La Jolla Cove Investors, Inc.
- 4.10 Securities Purchase Agreement dated August 3, 2001 between the Company and La Jolla Cove Investors, Inc.
- 4.11 Form of Conversion Warrants to be issued by the Company to La Jolla Cove Investors, Inc.
- 4.12 \$225,000 principal amount 9 3/4% Convertible Debenture dated August 3, 2001 issued by the Company to La Jolla Cove Investors, Inc.
- 4.13 Warrant certificate dated July 11, 2001 from the Company to La Jolla Cove Investors, Inc.
- 4.14 August 2, 2001 letter from La Jolla Cove Investors, Inc. to the Company
- 10.1 Employment and Non-Competition Agreement between the Company and Adele Hepburn dated as of January 1, 1993 (Incorporated by reference to Exhibit 10.7 to Form SB-2 Registration Statement No. 33-70992).
- 10.2 Adele Hepburn Common Stock Options dated as of July 1, 1993 (Incorporated by reference to Exhibit 10.12 to Form SB-2 Registration Statement No. 33-70992).
- 10.3 Certificate of Appointment of American Stock Transfer & Trust Company as Transfer Agent and Registrar dated October 8, 1993 (Incorporated by reference to Exhibit 10.23 to Form SB-2 Registration Statement No. 33-70992).
- 10.4 Employment and Non-Competition Agreement between the Company and H. Brock Kolls dated as of May 1, 1994 (Incorporated by reference to Exhibit 10.32 to Form SB-2 Registration Statement No. 33-70992)
- 10.4.1 First Amendment to Employment and Non-Competition Agreement between the Company and H. Brock Kolls dated as of May 1, 1994 (Incorporated by reference to Exhibit 10.13.1 to Form SB-2 Registration Statement No. 333-09465).
- 10.4.2 Third Amendment to Employment and Non-Competition Agreement between the Company and H. Brock Kolls dated February 22, 2000 (Incorporated by reference to Exhibit 10.3 to Form S-8 Registration Statement No. 333-341006).

- 10.5 H. Brock Kolls Common Stock Options dated as of May 1, 1994 (Incorporated by reference to Exhibit 10.42 to Form SB-2 Registration Statement No. 33-70992).
- 10.5.1 H. Brock Kolls Common Stock Options dated as of March 20, 1996 (Incorporated by reference to Exhibit 10.19 to Form SB-2 Registration Statement No. 33-70992)
- 10.6 Barry Slawter Common Stock Options dated as of August 25, 1994 (Incorporated by reference to Exhibit 10.43 to Form SB-2 Registration Statement No. 33-70992).
- 10.7 Employment and Non-Competition Agreement between the Company and Michael Lawlor dated June 7, 1996 (Incorporated by reference to Exhibit 10.28 to Form SB-2 Registration Statement No. 333-09465).
- 10.7.1 First Amendment to Employment and Non-Competition Agreement between the Company and Michael Lawlor dated February 22, 2000 (Incorporated by reference to Exhibit 10.5 to Form S-8 Registration Statement No. 333-34106).
- 10.8 Michael Lawlor Common Stock Option Certificate dated as of June 7, 1996 (Incorporated by reference to Exhibit 10.29 to Form SB-2 Registration Statement No.333-09465).
- 10.9 Employment and Non-Competition Agreement between the Company and Stephen P. Herbert dated April 4, 1996 (Incorporated by reference to Exhibit 10.30 to Form SB-2 Registration Statement No. 333-09465).
- 10.9.1 First Amendment to Employment and Non-Competition Agreement between the Company and Stephen P. Herbert dated February 22, 2000 (Incorporated by reference to Exhibit 10.2 to Form S-8 Registration Statement No. 333-34106).
- 10.10 Stephen P. Herbert Common Stock Option Certificate dated April 4, 1996 (Incorporated by reference to Exhibit 10.31 to Form SB-2 Registration Statement No. 333-09465).
- 10.11 RAM Group Common Stock Option Certificate dated as of August 22, 1996 (Incorporated by reference to Exhibit 10.34 to Form SB-2 Registration No. 33-98808).
- 10.12 RAM Group Common Stock Option Certificate dated as of November 1, 1996 (Incorporated by reference to Exhibit 10.35 to Form SB-2 Registration No. 33-98808).
- 10.13 Joseph Donahue Common Stock Option Certificate dated as of September 2, 1996 (Incorporated by reference to Exhibit 10.37 to Form SB-2 Registration No. 33-98808).
- 10.14 Employment and Non-Competition Agreement between the Company and Leland P. Maxwell dated February 24, 1997 (Incorporated by reference to Exhibit 10.39 to Form SB-2 Registration No. 33-98808)

- 10.14.1 Second Amendment to Employment and Non-Competition Agreement between the Company and Leland P. Maxwell dated February 22, 2000 (Incorporated by reference to Exhibit 10.4 to Form S-8 Registration Statement No. 333-34106)
- 10.15 Leland P. Maxwell Common Stock Option Certificate dated February 24, 1997 (Incorporated by reference to Exhibit 10.40 to Form SB-2 Registration No. 33-98808).
- 10.16 Letter between the Company and GEM Advisers, Inc. signed May 15, 1997 (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on May 22, 1997).
- 10.17 H. Brock Kolls Common Stock Option Certificate dated as of June 9, 1997 (Incorporated by reference to Exhibit 10.43 to Form SB-2 Registration Statement 333-30853).
- 10.18 Stephen Herbert Common Stock Option Certificate dated as of June 9, 1997 (Incorporated by reference to Exhibit 10.44 to Form SB-2 Registration Statement No. 333-30853).
- 10.19 Michael Feeney Common Stock Option Certificate dated as of June 9, 1997 (Incorporated by reference to Exhibit 10.46 to Form SB-2 Registration Statement No. 333-30853).
- 10.20 Joint Venture Agreement dated September 24, 1997 between the Company and Mail Boxes Etc. (Incorporated by reference to Exhibit 10.47 to Form 10-KSB filed on September 26, 1997).
- 10.21 Employment and Non-competition Agreement between the Company and George R. Jensen, Jr. dated November 20, 1997 (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 26, 1997).
- 10.21.1 First Amendment to Employment and Non-Competition Agreement between the Company and George R. Jensen, Jr., dated as of June 17, 1999.
- 10.21.2 Second Amendment to Employment and Non-Competition Agreement between the Company and George R. Jensen, Jr. dated February 22, 2000 (Incorporated by reference to Exhibit 10.1 to Form S-8 Registration Statement No. 333-34106).
- 10.22 Agreement between the Company and Promus Hotels, Inc. dated May 8, 1997 (incorporated by reference to Exhibit 10.49 to Form SB-2 Registration Statement No. 333-38593, filed on February 4, 1998).
- 10.23 Agreement between the Company and Choice Hotels International, Inc. dated April 24, 1997 (Incorporated by reference to Exhibit 10.50 to Form SB-2 Registration Statement No. 333-38593, filed on February 4, 1998).
- 10.24 Agreement between the Company and PNC Merchant Services dated July 18, 1997 (Incorporated by reference to Exhibit 10.51 to Form SB-2 Registration Statement No. 333-38593, filed on February 4, 1998).

- 10.25 Separation Agreement between the Company and Keith L. Sterling dated April 8, 1998 (Incorporated by reference to Exhibit to Exhibit 10.1 to Form 10-QSB filed May 12, 1998).
- 10.26 Phillip A. Harvey Common Stock Option Certificate dated as of April 22, 1999 (Incorporated by reference to Exhibit 10.35 to Form SB-2 Registration Statement No. 333-81591).
- 10.27 Consulting Agreement between Ronald Trahan and the Company dated November 16, 1998 (incorporated by Reference to Exhibit 28 to Registration Statement No. 333-67503 on Form S-8 filed on November 18, 1998).
- 10.28 Consulting Agreement between Mason Sexton and the Company dated March 10, 1999 (incorporated by reference to Exhibit 28 to Registration Statement No. 333-74807 on Form S-8 filed on March 22, 1999).
- 10.29 Financial Public Relations Agreement between the Company and I. W. Miller Group, Inc. dated August 1, 1999 (Incorporated by reference to Exhibit 10.38 to Form SB-2 Registration Statement No. 333-84513).
- 10.30 Consulting Agreement between Harmonic Research, Inc. and the Company dated August 3, 1999 (Incorporated by reference to Exhibit 10.39 to Form SB-2 Registration Statement No. 333-84513).
- 10.31 Investment Agreement between the Company and Swartz Private Equity, LLC dated September 15, 2000 (Incorporated by reference to Exhibit 10.1 to Form 8-K dated September 21, 2000).
- 10.32 Commitment Warrant issued to Swartz Private Equity LLC dated August 23, 2000 (Incorporated by reference to Exhibit 10.2 to Form 8-K dated September 21, 2000).
- 10.33 Warrant Anti-Dilution Agreement between the Company and Swartz Private Equity, LLC dated September 15, 2000 (Incorporated by reference to Exhibit 10.3 to Form 8-K dated September 21, 2000).
- 10.34 Registration Rights Agreement between the Company and Swartz Private Equity dated September 15, 2000 (Incorporated by reference to Exhibit 10.4 to Form 8-K dated September 21, 2000).
- 10.35 Agreement for Wholesale Financing and Addendum for Scheduled Payment Plan with IBM Credit Corporation dated May 6, 1999 (Incorporated by reference to Exhibit 10.40 to Form 10KSB for the fiscal year ended June 30, 1999).
- 10.36 Agreement dated August 29, 2001 between the Company and United Taxi Alliance (Incorporated by reference to Exhibit 10.1 to Form 8-K filed September 25, 2001).
- 23 Consent of Ernst & Young LLP, Independent Auditors

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

USA TECHNOLOGIES, INC.

By: /s/ George R. Jensen, Jr.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures -----	Title -----	Date -----
/s/ George R. Jensen, Jr. ----- George R. Jensen, Jr.	Chairman of the Board of Directors, Chief Executive Officer (Principal Executive Officer)	September 28, 2001
/s/ Leland P. Maxwell ----- Leland P. Maxwell	Vice President and Chief Financial Officer (Principal Accounting Officer)	September 28, 2001
/s/ William W. Sellers ----- William W. Sellers	Director	September 28, 2001
/s/ Stephen P. Herbert ----- Stephen P. Herbert	Director	September 28, 2001
/s/ William L. Van Alen, Jr. ----- William L. Van Alen, Jr.	Director	September 28, 2001
/s/ Douglas M. Lurio ----- Douglas M. Lurio	Director	September 28, 2001
----- Steven Katz	Director	September __, 2001
----- Henry B. duPont Smith	Director	September __, 2001
----- Edwin R. Boynton	Director	September __, 2001

REGISTRATION RIGHTS AGREEMENT

Registration Rights Agreement dated as of August 2, 2001 (this "Agreement") by and between: USA TECHNOLOGIES, Inc., a Pennsylvania corporation, with principal executive offices located at 200 Plant Avenue, Wayne, PA 19087 (the "Company"), and La Jolla Cove Investors, Inc. (the "Initial Investor").

WHEREAS, upon the terms and subject to the conditions of the Securities Purchase Agreement dated as of August 2, 2001, by and between the Initial Investor and the Company (the "Securities Purchase Agreement"), the Company has agreed to issue and sell to the Initial Investor a 9% Convertible Debenture (the "Debenture") of the Company in the aggregate principal amount of \$225,000 which, upon the terms of and subject to the conditions contained therein, is convertible into shares of the Company's Common Stock (the "Common Stock"); and

WHEREAS, to induce the Initial Investor to execute and deliver the Securities Purchase Agreement, the Company has agreed to provide with respect to the Common Stock issued upon conversion of the Debenture and the Additional Shares certain registration rights under the Securities Act;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Definitions

(A) As used in this Agreement, the following terms shall have the meanings:

(1) "Affiliate" of any specified Person means any other Person who directly, or indirectly through one or more intermediaries, is in control of, is controlled by, or is under common control with, such specified Person. For purposes of this definition, control of a Person means the power, directly or indirectly, to direct or cause the direction of the management and policies of such Person whether by contract, securities, ownership or otherwise; and the terms "controlling" and "controlled" have the respective meanings correlative to the foregoing.

(2) "Closing Date" means August 2, 2001.

(3) "Commission" means the Securities and Exchange Commission.

(4) "Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission thereunder, or any similar successor statute.

(5) "Investor" means each of the Initial Investor and any transferee or assignee of Registrable Securities which agrees to become bound by all of the terms and provisions of this Agreement in accordance with Section 8 hereof.

(6) "Person" means any individual, partnership, corporation, limited liability company, joint stock company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

(7) "Prospectus" means the prospectus (including, without limitation, any preliminary prospectus and any final prospectus filed pursuant to Rule 424(b) under the Securities Act, including any prospectus that discloses information previously omitted from a prospectus filed as part of an effective registration statement in reliance on Rule 430A under the Securities Act) included in the Registration Statement, as amended or supplemented by any prospectus supplement with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement and by all other amendments and supplements to such prospectus, including all material incorporated by reference in such prospectus and all documents filed after the date of such prospectus by the Company under the Exchange Act and incorporated by reference therein.

(8) "Public Offering" means an offer registered with the Commission and the appropriate state securities commissions by the Company of its Common Stock and made pursuant to the Securities Act.

(9) "Registrable Securities" means the Common Stock issued or issuable (i) upon conversion or redemption of the Debenture, (ii) pursuant to the terms and provisions of the Debenture or the Securities Purchase Agreement, (iii) in connection with any distribution, recapitalization, stock-split, stock adjustment or reorganization of the Company; provided, however, a share of Common Stock shall cease to be a Registrable Security for purposes of this Agreement when it no longer is a Restricted Security.

(10) "Registration Statement" means a registration statement of the Company filed on an appropriate form under the Securities Act providing for the registration of, and the sale on a continuous or delayed basis by the holders of, all of the Registrable Securities pursuant to Rule 415 under the Securities Act, including the Prospectus contained therein and forming a part thereof, any amendments to such registration statement and supplements to such Prospectus, and all exhibits to and other material incorporated by reference in such registration statement and Prospectus.

(11) "Restricted Security" means any share of Common Stock issued upon conversion or redemption of the Debenture except any such share that (i) has been registered pursuant to an effective registration statement under the Securities Act and sold in a manner contemplated by the prospectus included in such registration statement, (ii) has been transferred in compliance with the resale provisions of Rule 144 under the Securities Act (or any successor provision thereto) or is transferable pursuant to paragraph (k) of Rule 144 under the Securities Act (or any successor provision thereto) or (iii) otherwise has been transferred and a new share of Common Stock not subject to transfer restrictions under the Securities Act has been delivered by or on behalf of the Company.

(12) "Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder, or any similar successor statute.

(B) All capitalized terms used and not defined herein have the respective meaning assigned to them in the Securities Purchase Agreement or the Debenture.

2. Registration

(A) Filing and Effectiveness of Registration Statement. The Company shall prepare and file with the Commission as soon as practicable a Registration Statement relating to the offer and sale of the Registrable Securities and shall use its best efforts to cause the Commission to declare such Registration Statement effective under the Securities Act as promptly as practicable but in no event later than sixty (60) days after the Closing Date. The Company shall promptly (and, in any event, no more than 24 hours after it receives comments from the Commission), notify the Buyer when and if it receives any comments from the Commission on the Registration Statement and promptly forward a copy of such comments, if they are in writing, to the Buyer. At such time after the filing of the Registration Statement pursuant to this Section 2(A) as the Commission indicates, either orally or in writing, that it has no further comments with respect to such Registration Statement or that it is willing to entertain appropriate requests for acceleration of effectiveness of such Registration Statement, the Company shall promptly, and in no event later than two (2) business days after receipt of such indication from the Commission, request that the effectiveness of such Registration Statement be accelerated within forty-eight (48) hours of the Commission's receipt of such request. The Company shall notify the Initial Investor by written notice that such Registration Statement has been declared effective by the Commission within 24 hours of such declaration by the Commission.

(B) Eligibility for Use of Form S-3 or an SB-2. The Company agrees that at such time as it meets all the requirements for the use of Securities Act Registration Statement on Form S-3 or SB-2 and it shall file all reports and information required to be filed by it with the Commission in a timely manner and take all such other action so as to maintain such eligibility for the use of such form.

(C) Additional Registration Statement. In the event the Current Market Price declines to a price per share the result of which is that the Company cannot satisfy its conversion obligations to Initial Investor hereunder, the Company shall, to the extent required by the Securities Act (because the additional shares were not covered by the Registration Statement filed pursuant to Section 2(a)), as reasonably determined by the Initial Investor, file an additional Registration Statement with the Commission for such additional number of Registrable Securities as would be issuable upon conversion of the Debenture (the "Additional Registrable Securities") in addition to those previously registered. The Company shall, to the extent required by the Securities Act, as reasonably determined by the Initial Investor, prepare and file with the Commission not later than the 30th day thereafter, a Registration Statement relating to the offer and sale of such Additional Registrable Securities and shall use its best efforts to cause the Commission to declare such Registration Statement effective under the Securities Act as promptly as practicable but not later than 60 days thereafter. The Company shall not include any other securities in the Registration Statement relating to the offer and sale of such Additional Registrable Securities.

(D) (i) If the Company proposes to register any of its warrants, Common Stock or any other shares of common stock of the Company under the Securities Act (other than a registration (A) on Form S-8 or S-4 or any successor or similar forms, (B) relating to Common Stock or any other shares of common stock of the Company issuable upon exercise of employee share options or in connection with any employee benefit or similar plan of the Company or (C) in connection with a direct or indirect acquisition by the Company of another Person or any transaction with respect to which Rule 145 (or any successor provision) under the Securities Act applies), whether or not for sale for its own account, it will each such time, give prompt written notice at least 20 days prior to the anticipated filing date of the registration statement relating to such registration to each Investor, which notice shall set forth such Investor's rights under this Section 2(D) and shall offer such Investor the opportunity to include in such registration statement such number of Registrable Securities as such Investor may request. Upon the written request of any Investor made within 10 days after the receipt of notice from the Company (which request shall specify the number of Registrable Securities intended to be disposed of by such Investor), the Company will use its best efforts to effect the registration under the Securities Act of all Registrable Securities that the Company has been so requested to register by each Investor, to the extent requisite to permit the disposition of the Registrable Securities so to be registered; provided, however, that (A) if such registration involves a Public Offering, each Investor must sell its Registrable Securities to any underwriters selected by the Company with the consent of such Investor on the same terms and conditions as apply to the Company and (B) if, at any time after giving written notice of its intention to register any Registrable Securities pursuant to this Section 2 and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to register such Registrable Securities, the Company shall give written notice to each Investor and, thereupon, shall be relieved of its obligation to register any Registrable Securities in connection with such registration. The Company's obligations under this Section 2(D) shall terminate on the date that the registration statement to be filed in accordance with Section 2(A) is declared effective by the Commission.

(ii) If a registration pursuant to this Section 2(D) involves a Public Offering and the managing underwriter thereof advises the Company that, in its view, the number of shares of Common Stock that the Company and the Investors intend to include in such registration exceeds the largest number of shares of Common Stock that can be sold without having an adverse effect on such Public Offering (the "Maximum Offering Size"), the Company will include in such registration only such number of shares of Common Stock as does not exceed the Maximum Offering Size, and the number of shares in the Maximum Offering Size shall be allocated among the Company, the Investors and any other sellers of Common Stock in such Public Offering ("Third-Party Sellers"), first, pro rata among the Investors until all the shares of Common Stock originally proposed to be offered for sale by the Investors have been allocated, and second, pro rata among the Company and any Third-Party Sellers, in each case on the basis of the relative number of shares of Common Stock originally proposed to be offered for sale under such registration by each of the Investors, the Company and the Third-Party Sellers, as the case may be. If as a result of the proration provisions of this Section 2(D)(ii), any Investor is not entitled to include all such Registrable Securities in such registration, such Investor may elect to withdraw its request to include any Registrable Securities in such registration. With respect to registrations pursuant to this Section 2(D), the number of securities required to satisfy any underwriters' over-allotment option shall be allocated among the Company, the Investors and any Third Party Seller pro rata on the basis of the relative number of securities offered for sale under such registration by each of the Investors, the Company and any such Third Party Sellers before the exercise of such over-allotment option.

3. Obligations of the Company

In connection with the registration of the Registrable Securities, the Company shall:

(A) Promptly (i) prepare and file with the Commission such amendments (including post-effective amendments) to the Registration Statement and supplements to the Prospectus as may be necessary to keep the Registration Statement continuously effective and in compliance with the provisions of the Securities Act applicable thereto so as to permit the Prospectus forming part thereof to be current and useable by Investors for resales of the Registrable Securities for a period of five (5) years from the date on which the Registration Statement is first declared effective by the Commission (the "Effective Time") or such shorter period that will terminate when all the Registrable Securities covered by the Registration Statement have been sold pursuant thereto in accordance with the plan of distribution provided in the Prospectus, transferred pursuant to Rule 144 under the Securities Act or otherwise transferred in a manner that results in the delivery of new securities not subject to transfer restrictions under the Securities Act (the "Registration Period") and (ii) take all lawful action such that each of (A) the Registration Statement and any amendment thereto does not, when it becomes effective, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, not misleading and (B) the Prospectus forming part of the Registration Statement, and any amendment or supplement thereto, does not at any time during the Registration Period include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(B) During the Registration Period, comply with the provisions of the Securities Act with respect to the Registrable Securities of the Company covered by the Registration Statement until such time as all of such Registrable Securities have been disposed of in accordance with the intended methods of disposition by the Investors as set forth in the Prospectus forming part of the Registration Statement;

(C) (i) Prior to the filing with the Commission of any Registration Statement (including any amendments thereto) and the distribution or delivery of any Prospectus (including any supplements thereto), provide (A) draft copies thereof to the Investors and reflect in such documents all such comments as the Investors (and their counsel) reasonably may propose and (B) to the Investors a copy of the accountant's consent letter to be included in the filing and (ii) furnish to each Investor whose Registrable Securities are included in the Registration Statement and its legal counsel identified to the Company, (A) promptly after the same is prepared and publicly distributed, filed with the Commission, or received by the Company, one copy of the Registration Statement, each Prospectus, and each amendment or supplement thereto and (B) such number of copies of the Prospectus and all amendments and supplements thereto and such other documents, as such Investor may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Investor;

(D) (i) Register or qualify the Registrable Securities covered by the Registration Statement under such securities or "blue sky" laws of such jurisdictions as the Investors who hold a majority-in-interest of the Registrable Securities being offered reasonably request, (ii) prepare and file in such jurisdictions such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof at all times during the Registration Period, (iii) take all such other lawful actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period and (iv) take all such other lawful actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (A) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(D), (B) subject itself to general taxation in any such jurisdiction or (C) file a general consent to service of process in any such jurisdiction;

(E) As promptly as practicable after becoming aware of such event, notify each Investor of the occurrence of any event, as a result of which the Prospectus included in the Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and promptly prepare an amendment to the Registration Statement and supplement to the Prospectus to correct such untrue statement or omission, and deliver a number of copies of such supplement and amendment to each Investor as such Investor may reasonably request;

(F) As promptly as practicable after becoming aware of such event, notify each Investor who holds Registrable Securities being sold (or, in the event of an underwritten offering, the managing underwriters) of the issuance by the Commission of any stop order or other suspension of the effectiveness of the Registration Statement at the earliest possible time and take all lawful action to effect the withdrawal, recession or removal of such stop order or other suspension;

(G) Cause all the Registrable Securities covered by the Registration Statement to be listed on the principal national securities exchange, and included in an inter-dealer quotation system of a registered national securities association, on or in which securities of the same class or series issued by the Company are then listed or included;

(H) Maintain a transfer agent and registrar, which may be a single entity, for the Registrable Securities not later than the effective date of the Registration Statement;

(I) Cooperate with the Investors who hold Registrable Securities being offered to facilitate the timely preparation and delivery of certificates for the Registrable Securities to be offered pursuant to the registration statement and enable such certificates for the Registrable Securities to be in such denominations or amounts, as the case may be, as the Investors reasonably may request and registered in such names as the Investor may request; and, within three (3) business days after a registration statement which includes Registrable Securities is declared effective by the Commission, deliver and cause legal counsel selected by the Company to deliver to the transfer agent for the Registrable Securities (with copies to the Investors whose Registrable Securities are included in such registration statement) an appropriate instruction and, to the extent necessary, an opinion of such counsel;

(J) Take all such other lawful actions reasonably necessary to expedite and facilitate the disposition by the Investors of their Registrable Securities in accordance with the intended methods therefor provided in the Prospectus which are customary under the circumstances;

(K) Make generally available to its security holders as soon as practicable, but in any event not later than three (3) months after (i) the effective date (as defined in Rule 158(c) under the Securities Act) of the Registration Statement and (ii) the effective date of each post-effective amendment to the Registration Statement, as the case may be, an earnings statement of the Company and its subsidiaries complying with Section 11 (a) of the Securities Act and the rules and regulations of the Commission thereunder (including, at the option of the Company, Rule 158);

(L) In the event of an underwritten offering, promptly include or incorporate in a Prospectus supplement or post-effective amendment to the Registration Statement such information as the managers reasonably agree should be included therein and to which the Company does not reasonably object and make all required filings of such Prospectus supplement or post-effective amendment as soon as practicable after it is notified of the matters to be included or incorporated in such Prospectus supplement or post-effective amendment;

(M) (i) Make reasonably available for inspection by Investors, any underwriter participating in any disposition pursuant to the Registration Statement, and any attorney, accountant or other agent retained by such Investors or any such underwriter all relevant financial and other records, pertinent corporate documents and properties of the Company and its subsidiaries, and (ii) cause the Company's officers, directors and employees to supply all information reasonably requested by such Investors or any such underwriter, attorney, accountant or agent in connection with the Registration Statement, in each case, as is customary for similar due diligence examinations; provided, however, that all records, information and documents that are designated in writing by the Company, in good faith, as confidential, proprietary or containing any material nonpublic information shall be kept confidential by such Investors and any such underwriter, attorney, accountant or agent (pursuant to an appropriate confidentiality agreement in the case of any such holder or agent), unless such disclosure is made pursuant to judicial process in a court proceeding (after first giving the Company an opportunity promptly to seek a protective order or otherwise limit the scope of the information sought to be disclosed) or is required by law, or such records, information or documents become available to the public generally or through a third party not in violation of an accompanying obligation of confidentiality; and provided, further, that, if the foregoing inspection and information gathering would otherwise disrupt the Company's conduct of its business, such inspection and information gathering shall, to the maximum extent possible, be coordinated on behalf of the Investors and the other parties entitled thereto by one firm of counsel designed by and on behalf of the majority in interest of Investors and other parties;

(N) In connection with any underwritten offering, make such representations and warranties to the Investors participating in such underwritten offering and to the managers, in form, substance and scope as are customarily made by the Company to underwriters in secondary underwritten offerings;

(O) In connection with any underwritten offering, obtain opinions of counsel to the Company (which counsel and opinions (in form, scope and substance) shall be reasonably satisfactory to the managers) addressed to the underwriters, covering such matters as are customarily covered in opinions requested in secondary underwritten offerings (it being agreed that the matters to be covered by such opinions shall include, without limitation, as of the date of the opinion and as of the Effective Time of the Registration Statement or most recent post-effective amendment thereto, as the case may be, the absence from the Registration Statement and the Prospectus, including any documents incorporated by reference therein, of an untrue statement of a material fact or the omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of the Prospectus, in light of the circumstances under which they were made) not misleading, subject to customary limitations);

(P) In connection with any underwritten offering, obtain "cold comfort" letters and updates thereof from the independent public accountants of the Company (and, if necessary, from the independent public accountants of any subsidiary of the Company or of any business acquired by the Company, in each case for which financial statements and financial data are, or are required to be, included in the Registration Statement), addressed to each underwriter participating in such underwritten offering (if such underwriter has provided such letter, representations or documentation, if any, required for such cold comfort letter to be so addressed), in customary form and covering matters of the type customarily covered in "cold comfort" letters in connection with secondary underwritten offerings;

(Q) In connection with any underwritten offering, deliver such documents and certificates as may be reasonably required by the managers, if any, and

(R) In the event that any broker-dealer registered under the Exchange Act shall be an "Affiliate" (as defined in Rule 2729(b)(1) of the rules and regulations of the National Association of Securities Dealers, Inc. (the "NASD Rules") (or any successor provision thereto)) of the Company or has a "conflict of interest" (as defined in Rule 2720(b)(7) of the NASD Rules (or any successor provision thereto)) and such broker-dealer shall underwrite, participate as a member of an underwriting syndicate or selling group or assist in the distribution of any Registrable Securities covered by the Registration Statement, whether as a holder of such Registrable Securities or as an underwriter, a placement or sales agent or a broker or dealer in respect thereof, or otherwise, the Company shall assist such broker-dealer in complying with the requirements of the NASD Rules, including, without limitation, by (A) engaging a "qualified independent underwriter" (as defined in Rule 2720(b)(15) of the NASD Rules (or any successor provision thereto)) to participate in the preparation of the Registration Statement relating to such Registrable Securities, to exercise usual standards of due diligence in respect thereof and to recommend the public offering price of such Registrable Securities, (B) indemnifying such qualified independent underwriter to the extent of the indemnification of underwriters provided in Section 6 hereof and (C) providing such information to such broker-dealer as may be required in order for such broker-dealer to comply with the requirements of the NASD Rules.

4. Obligations of the Investors

In connection with the registration of the Registrable Securities, the Investors shall have the following obligations:

(A) It shall be a condition precedent to the obligations of the Company to complete the registration pursuant to this Agreement with respect to the Registrable Securities of a particular Investor that such Investor shall furnish to the Company such information regarding itself, the Registrable Securities held by it and the intended method of disposition of the Registrable Securities held by it as shall be reasonably required to effect the registration of such Registrable Securities and shall execute such documents in connection with such registration as the Company may reasonably request;

(B) Each Investor by its acceptance of the Registrable Securities agrees to cooperate with the Company in connection with the preparation and filing of the Registration Statement hereunder, unless such Investor has notified the Company in writing of its election to exclude all of its Registrable Securities from the Registration Statement; and

(C) Each Investor agrees that, upon receipt of any notice from the Company of the occurrence of any event of the kind described in Section 3(E) or 3(F), it shall immediately discontinue its disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such Investor's receipt of the copies of the supplemented or amended Prospectus contemplated by Section 3(E) and, if so directed by the Company, such Investor shall deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in such Investor's possession, of the Prospectus covering such Registrable Securities current at the time of receipt of such notice.

5. Expenses of Registration

All expenses, other than underwriting discounts and commissions, incurred in connection with registrations, filings or qualifications pursuant to Section 3, but including, without limitation, all registration, listing, and qualifications fees, printing and engraving fees, accounting fees, and the fees and disbursements of counsel for the Company, and the reasonable fees (not to exceed \$2,000) of one firm of counsel to the holders of a majority in interest of the Registrable Securities shall be borne by the Company.

6. Indemnification and Contribution

(A) Indemnification by the Company. The Company shall indemnify and hold harmless each Investor and each underwriter, if any, which facilitates the disposition of Registrable Securities, and each of their respective officers and directors and each person who controls such Investor or underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act (each such person being sometimes hereinafter referred to as an "Indemnified Person") from and against any losses, claims, damages or liabilities, joint or several, to which such Indemnified Person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement of a material fact contained in any Registration Statement or an omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, not misleading, or arise out of or are based upon an untrue statement of a material fact contained in any Prospectus or an omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and the Company hereby agrees to reimburse such Indemnified Person for all reasonable legal and other expenses incurred by them in connection with investigating or defending any such action or claim as and when such expenses are incurred; provided, however, that the Company shall not be liable to any such Indemnified Person in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon (i) an untrue statement or alleged untrue statement made in, or an omission or alleged omission from, such Registration Statement or Prospectus in reliance upon and in conformity with written information furnished to the Company by such Indemnified Person expressly for use therein or (ii) in the case of the occurrence of an event of the type specified in Section 3(E), the use by the Indemnified Person of an outdated or defective Prospectus after the Company has provided to such Indemnified Person an updated Prospectus correcting the untrue statement or alleged untrue statement or omission or alleged omission giving rise to such loss, claim, damage or liability.

(B) Notice of Claims, etc. Promptly after receipt by a party seeking indemnification pursuant to this Section 6 (an "Indemnified Party") of written notice of any investigation, claim, proceeding or other action in respect of which indemnification is being sought (each, a "Claim"), the Indemnified Party promptly shall notify the party against whom indemnification pursuant to this Section 6 is being sought (the "Indemnifying Party") of the commencement thereof; but the omission to so notify the Indemnifying Party shall not relieve it from any liability that it otherwise may have to the Indemnified Party, except to the extent that the Indemnifying Party is materially prejudiced and forfeits substantive rights and defenses by reason of such failure. In connection with any Claim as to which both the Indemnifying Party and the Indemnified Party are parties, the Indemnifying Party shall be entitled to assume the defense thereof. Notwithstanding the assumption of the defense of any Claim by the Indemnifying Party, the Indemnified Party shall have the right to employ separate legal counsel and to participate in the defense of such Claim, and the Indemnifying Party shall bear the reasonable fees, out-of-pocket costs and expenses of such separate legal counsel to the Indemnified Party if (and only if): (x) the Indemnifying Party shall have agreed to pay such fees, costs and expenses, (y) the Indemnified Party and the Indemnifying Party shall reasonably have concluded that representation of the Indemnified Party by the Indemnifying Party by the same legal counsel would not be appropriate due to actual or, as reasonably determined by legal counsel to the Indemnified Party, potentially differing interests between such parties in the conduct of the defense of such Claim, or if there may be legal defenses available to the Indemnified Party that are in addition to or disparate from those available to the Indemnifying Party or (z) the Indemnifying Party shall have failed to employ legal counsel reasonably satisfactory to the Indemnified Party within a reasonable period of time after notice of the commencement of such Claim. If the Indemnified Party employs separate legal counsel in circumstances other than as described in clauses (x), (y) or (z) above, the fees, costs and expenses of such legal counsel shall be borne exclusively by the Indemnified Party. Except as provided above, the Indemnifying Party shall not, in connection with any Claim in the same jurisdiction, be liable for the fees and expenses of more than one firm of counsel for the Indemnified Party (together with appropriate local counsel). The Indemnified Party shall not, without the prior written consent of the Indemnifying Party (which consent shall not unreasonably be withheld), settle or compromise any Claim or consent to the entry of any judgment that does not include an unconditional release of the Indemnifying Party from all liabilities with respect to such Claim or judgment.

(C) Contribution. If the indemnification provided for in this Section 6 is unavailable to or insufficient to hold harmless an Indemnified Person under subsection (A) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each Indemnifying Party shall contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and the Indemnified Party in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and

Indemnified Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by such Indemnifying Party or by such Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 6(D) were determined by pro rata allocation (even if the Investors or any underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in this Section 6(D). The amount paid or payable by an Indemnified Party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such action or claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The obligations of the Investors and any underwriters in this Section 6(D) to contribute shall be several in proportion to the percentage of Registrable Securities registered or underwritten, as the case may be, by them and not joint.

(D) Notwithstanding any other provision of this Section 6, in no event shall any (i) Investor be required to undertake liability to any person under this Section 6 for any amounts in excess of the dollar amount of the proceeds to be received by such Investor from the sale of such Investor's Registrable Securities (after deducting any fees, discounts and commissions applicable thereto) pursuant to any Registration Statement under which such Registrable Securities are to be registered under the Securities Act and (ii) underwriter be required to undertake liability to any Person hereunder for any amounts in excess of the aggregate discount, commission or other compensation payable to such underwriter with respect to the Registrable Securities underwritten by it and distributed pursuant to the Registration Statement.

(E) The obligations of the Company under this Section 6 shall be in addition to any liability which the Company may otherwise have to any Indemnified Person and the obligations of any Indemnified Person under this Section 6 shall be in addition to any liability which such Indemnified Person may otherwise have to the Company. The remedies provided in this Section 6 are not exclusive and shall not limit any rights or remedies which may otherwise be available to an indemnified party at law or in equity.

7. Rule 144

With a view to making available to the Investors the benefits of Rule 144 under the Securities Act or any other similar rule or regulation of the Commission that may at any time permit the Investors to sell securities of the Company to the public without registration ("Rule 144"), the Company agrees to use its best efforts to:

(1) comply with the provisions of paragraph (c) (1) of Rule 144 and

(2) file with the Commission in a timely manner all reports and other documents required to be filed by the Company pursuant to Section 13 or 15(d) under the Exchange Act; and, if at any time it is not required to file such reports but in the past had been required to or did file such reports, it will, upon the request of any Investor, make available other information as required by, and so long as necessary to permit sales of, its Registrable Securities pursuant to Rule 144.

8. Assignment

The rights to have the Company register Registrable Securities pursuant to this Agreement shall be automatically assigned by the Investors to any permitted transferee of all or any portion of such Registrable Securities (or all or any portion of the Debenture or Warrant of the Company which is convertible into such securities) only if (a) the Investor agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company within a reasonable time after such assignment, (b) the Company is, within a reasonable time after such transfer or assignment, furnished with written notice of (i) the name and address of such transferee or assignee and (ii) the securities with respect to which such registration rights are being transferred or assigned, (c) immediately following such transfer or assignment, the securities so transferred or assigned to the transferee or assignee constitute Restricted Securities and (d) at or before the time the Company received the written notice contemplated by clause (b) of this sentence the transferee or assignee agrees in writing with the Company to be bound by all of the provisions contained herein.

9. Amendment and Waiver

Any provision of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and Investors who hold a majority-in-interest of the Registrable Securities. Any amendment or waiver effected in accordance with this Section 9 shall be binding upon each Investor and the Company.

10. Changes in Common Stock

If, and as often as, there are any changes in the Common Stock by way of stock split, stock dividend, reverse split, combination or reclassification, or through merger, consolidation, reorganization or recapitalization, or by any other means, appropriate adjustment shall be made in the provisions hereof, as may be required, so that the rights and privileges granted hereby shall continue with respect to the Common Stock as so changed.

11. Miscellaneous

(A) A person or entity shall be deemed to be a holder of Registrable Securities whenever such person or entity owns of record such Registrable Securities. If the Company receives conflicting instructions, notices or elections from two or more persons or entities with respect to the same Registrable Securities, the Company shall act upon the basis of instructions, notice or election received from the registered owner of such Registrable Securities.

(B) If, after the date hereof and prior to the Commission declaring the Registration Statement to be filed pursuant to Section 2(a) effective under the Securities Act, the Company grants to any Person any registration rights with respect to any Company securities which are more favorable to such other Person than those provided in this Agreement, then the Company forthwith shall grant (by means of an amendment to this Agreement or otherwise) identical registration rights to all Investors hereunder.

(C) Except as may be otherwise provided herein, any notice or other communication or delivery required or permitted hereunder shall be in writing and shall be delivered personally, or sent by telecopier machine or by a nationally recognized overnight courier service, and shall be deemed given when so delivered personally, or by telecopier machine or overnight courier service as follows:

(1) if to the Company, to:

USA TECHNOLOGIES, Inc.
200 Plant Avenue
Wayne, PA 19087
Attention: George Jensen
Telecopier: (610) 989-0344
Telephone: (949) 989-0340

(2) if to the Buyer, to:

La Jolla Cove Investors, Inc.
Suite 200
7817 Herschel Avenue
La Jolla, California 92037
Attention: Travis Huff
Telecopier: 858.551.0987
Telephone: 858.551.8703

with a copy to:

Loeb & Loeb LLP
Suite 2200
10100 Santa Monica Boulevard
Attention: David Ficksman, Esq.
Telecopier: 310.282.2192
Telephone: 310.282.2000

(3) if to any other Investor, at such address as such Investor shall have provided in writing to the Company.

The Company, the Initial Investor or any Investor may change the foregoing address by notice given pursuant to this Section 11(C).

(D) Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

(E) This Agreement shall be governed by and interpreted in accordance with the laws of the State of California. Each of the parties consents to the jurisdiction of the federal courts whose districts encompass any part of the City of San Diego or the state courts of the State of California sitting in the City of San Diego in connection with any dispute arising under this Agreement and hereby waives, to the maximum extent permitted by law, any objection including any objection based on forum non conveniens, to the bringing of any such proceeding in such jurisdictions.

(F) Should any party hereto employ an attorney for the purpose of enforcing or construing this Agreement, or any judgment based on this Agreement, in any legal proceeding whatsoever, including insolvency, bankruptcy, arbitration, declaratory relief or other litigation, the prevailing party shall be entitled to receive from the other party or parties thereto reimbursement for all reasonable attorneys' fees and all reasonable costs, including but not limited to service of process, filing fees, court and court reporter costs, investigative costs, expert witness fees, and the cost of any bonds, whether taxable or not, and that such reimbursement shall be included in any judgment or final order issued in that proceeding. The "prevailing party" means the party determined by the court to most nearly prevail and not necessarily the one in whose favor a judgment is rendered.

(G) The remedies provided in this Agreement are cumulative and not exclusive of any remedies provided by law. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their best efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(H) The Company shall not enter into any agreement with respect to its securities that is inconsistent with the rights granted to the holders of Registrable Securities in this Agreement or otherwise conflicts with the provisions hereof. The Company is not currently a party to any agreement granting any registration rights with respect to any of its securities to any person which conflicts with the Company's obligations hereunder or gives any other party the right to include any securities in any Registration Statement filed pursuant hereto, except for such rights and conflicts as have been irrevocably waived. Without limiting the generality of the foregoing, without the written consent of the holders of a majority in interest of the Registrable Securities, the Company shall not grant to any person the right to request it to register any of its securities under the Securities Act unless the rights so granted are subject in all respect to the prior rights of the holders of Registrable Securities set forth herein, and are not otherwise in conflict or inconsistent with the provisions of this Agreement. The restrictions on the Company's rights to grant registration rights under this paragraph shall terminate on the date the Registration Statement to be filed pursuant to Section 2(A) is declared effective by the Commission.

(I) This Agreement, the Securities Purchase Agreement, the Debenture and the Conversion Warrants Agreement, of even date herewith among the Company, the Initial Investor and Loeb & Loeb LLP, constitute the entire agreement among the parties hereto with respect to the subject matter hereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein. These Agreements supersede all prior agreements and undertakings among the parties hereto with respect to the subject matter hereof.

(J) Subject to the requirements of Section 8 hereof, this Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto.

(K) All pronouns and any variations thereof refer to the masculine, feminine or neuter, singular or plural, as the context may require.

(L) The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning thereof.

(M) The Company acknowledges that any failure by the Company to perform its obligations under Section 3, or any delay in such performance, could result in direct damages to the Investors and the Company agrees that, in addition to any other liability the Company may have by reason of any such failure or delay, the Company shall be liable for all direct damages caused by such failure or delay.

(N) This Agreement may be executed in two (2) counterparts, each of which shall be deemed an original but both of which shall constitute one and the same agreement. A facsimile transmission of this signed Agreement shall be legal and binding on the parties hereto.

IN WITNESS WHEREOF, the parties hereto have duly caused this Agreement to be executed and delivered on the date first above written.

USA TECHNOLOGIES, Inc., a Pennsylvania corporation

By: /s/ George R. Jensen, Jr.

Name: George R. Jensen, Jr.
Title: Chairman & CEO

La Jolla Cove Investors, Inc.

By: /s/ Travis Huff

Name: Travis Huff
Title: Portfolio Mgr.

SECURITIES PURCHASE AGREEMENT

Securities Purchase Agreement dated as of August 2, 2001 (this "Agreement") by and between USA TECHNOLOGIES, Inc., a Pennsylvania corporation, with principal executive offices located at 200 Plant Avenue, Wayne, PA 19087 (the "Company"), and La Jolla Cove Investors, Inc. ("Buyer").

WHEREAS, Buyer desires to purchase from the Company, and the Company desires to issue and sell to Buyer, upon the terms and subject to the conditions of this Agreement, the 9 3/4 % Convertible Debenture of the Company in the aggregate principal amount of \$225,000, in the form attached hereto as Exhibit A (the "Debenture"); and

WHEREAS, upon the terms and subject to the conditions set forth in the Debenture, the Debenture is convertible into shares of the Company's Common Stock (the "Common Stock");

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto, intending to be legally bound, hereby agree as follows:

I. PURCHASE AND SALE OF DEBENTURE

A. Transaction. Buyer hereby agrees to purchase from the Company, and the Company has offered and hereby agrees to issue and sell to Buyer in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act of 1933, as amended (the "Securities Act"), the Debenture.

B. Purchase Price; Form of Payment. The purchase price for the Debenture to be purchased by Buyer hereunder shall be \$225,000 (the "Purchase Price"). Simultaneously with the execution of this Agreement, Buyer shall pay \$100,000 of the Purchase Price by wire transfer of immediately available funds to the Company. Simultaneously with the execution of this Agreement, the Company shall deliver the Convertible Debenture and the Conversion Warrants (which shall have been duly authorized, issued and executed I/N/O Buyer or, if the Company otherwise has been notified, I/N/O Buyer's nominee). Upon notification and verification that the Registration Statement for the Conversion Shares (as defined below) and the shares of Common Stock issuable upon exercise of the Conversion Warrants and the Warrant (the "Initial Warrant") previously issued by the Company in favor of initial Buyer for 500,000 shares (collectively, the "Warrant Shares") has been declared effective by the Securities and Exchange Commission, Buyer shall immediately send via wire the remainder of the Purchase Price.

II. BUYER'S REPRESENTATIONS AND WARRANTIES

Buyer represents and warrants to and covenants and agrees with the Company as follows:

A. Buyer is purchasing the Debenture, the Additional Shares and the Common Stock issuable upon conversion or redemption of the Debenture in addition to any additional shares issued as a result of the Company's failure to comply with the provisions of the Debenture (the "Conversion Shares" and, collectively with the Debenture and the Additional Shares, the "Securities") for its own account, for investment purposes only and not with a view towards or in connection with the public sale or distribution thereof in violation of the Securities Act.

B. Buyer is (i) an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act, (ii) experienced in making investments of the kind contemplated by this Agreement, (iii) capable, by reason of its business and financial experience, of evaluating the relative merits and risks of an investment in the Securities, and (iv) able to afford the loss of its investment in the Securities.

C. Buyer understands that the Securities are being offered and sold by the Company in reliance on an exemption from the registration requirements of the Securities Act and equivalent state securities and "blue sky" laws, and that the Company is relying upon the accuracy of, and Buyer's compliance with, Buyer's representations, warranties and covenants set forth in this Agreement to determine the availability of such exemption and the eligibility of Buyer to purchase the Securities;

D. Buyer understands that the Securities have not been approved or disapproved by the Securities and Exchange Commission (the "Commission") or any state or provincial securities commission.

E. This Agreement has been duly and validly authorized, executed and delivered by Buyer and is a valid and binding agreement of Buyer enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally and except as rights to indemnity and contribution may be limited by federal or state securities laws or the public policy underlying such laws.

III. THE COMPANY'S REPRESENTATIONS

The Company represents and warrants to Buyer that:

A. Capitalization.

1. The authorized capital stock of the Company consists of (i) 62,000,000 shares of Common Stock and 900,000 shares of Series A Preferred Stock of which 570,000 shares, respectively, are issued and outstanding as of the date hereof and are fully paid and nonassessable. The amount, exercise, conversion or subscription price and expiry date for each outstanding option and other security or agreement to purchase shares of Common Stock is accurately set forth on Schedule III.A.1.

2. The Conversion Shares and Warrant Shares have been duly and validly authorized and reserved for issuance by the Company, and, when issued by the Company upon conversion of the Debenture will be duly and validly issued, fully paid and nonassessable and will not subject the holder thereof to personal liability by reason of being such holder.

3. Except as disclosed on Schedule III.A.3., there are no preemptive, subscription, "call," right of first refusal or other similar rights to acquire any capital stock of the Company or any of its Subsidiaries (as such term is hereinafter defined) or other voting securities of the Company that have been issued or granted to any person and no other obligations of the Company or any of its Subsidiaries to issue, grant, extend or enter into any security, option, warrant, "call," right, commitment, agreement, arrangement or undertaking with respect to any of their respective capital stock.

B. Organization; Reporting Company Status.

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of the state or jurisdiction in which it is incorporated and is duly qualified as a foreign corporation in all jurisdictions in which the failure so to qualify would reasonably be expected to have a material adverse effect on the business, properties, prospects, condition (financial or otherwise) or results of operations of the Company or on the consummation of any of the transactions contemplated by this Agreement (a "Material Adverse Effect").

2. The Company has registered the Common Stock pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Common Stock is traded on the OTC Bulletin Board service of the National Association of Securities Dealers, Inc. ("OTCBB") and the Company has not received any notice regarding, and to its knowledge there is no threat of, the termination or discontinuance of the eligibility of the Common Stock for such trading.

C. Authorization. The Company (i) has duly and validly authorized and reserved for issuance shares of Common Stock, which is a number sufficient for the conversion of the Debenture and (ii) at all times from and after the date hereof shall have a sufficient number of shares of Common Stock duly and validly authorized and reserved for issuance to satisfy the conversion of the Debenture in full. The Company understands and acknowledges the potentially dilutive effect on the Common Stock of the issuance of the Conversion Shares upon the conversion of the Debenture. The Company further acknowledges that its obligation to issue Conversion Shares upon conversion of the Debenture in accordance with this Agreement is absolute and unconditional regardless of the dilutive effect that such issuance may have on the ownership interests of other stockholders of the Company and notwithstanding the commencement of any case under 11 U.S.C. ss. 101 et seq. (the "Bankruptcy Code"). In the event the Company is a debtor under the Bankruptcy Code, the Company hereby waives to the fullest extent permitted any rights to relief it may have under 11 U.S.C. ss. 362 in respect of the conversion of the Debenture. The Company agrees, without cost or expense to Buyer, to take or consent to any and all action necessary to effectuate relief under 11 U.S.C. ss. 362.

D. Authority; Validity and Enforceability. The Company has the requisite corporate power and authority to enter into the Documents (as such term is hereinafter defined) and to perform all of its obligations hereunder and thereunder (including the issuance, sale and delivery to Buyer of the Securities). The execution, delivery and performance by the Company of the Documents and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance of the Debenture and the issuance and reservation for issuance of the Conversion Shares) have been duly and validly authorized by all necessary corporate action on the part of the Company. Each of the Documents has been duly and validly executed and delivered by the Company and each Document constitutes a valid and binding

obligation of the Company enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally and except as rights to indemnity and contribution may be limited by federal or state securities laws or the public policy underlying such laws. The Securities have been duly and validly authorized for issuance by the Company and, when executed and delivered by the Company, will be valid and binding obligations of the Company enforceable against it in accordance with their respective terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally. For purposes of this Agreement, the term "Documents" means (i) this Agreement; (ii) the Registration Rights Agreement dated as of even date herewith between the Company and Buyer, a copy of which is annexed hereto as Exhibit B (the "Registration Rights Agreement"); and (iii) the Debenture.

E. Validity of Issuance of the Securities. The Debenture and the Additional Shares as of the Closing Date (as such term is hereinafter defined), and the Conversion Shares upon their issuance in accordance with the Debenture will be validly issued and outstanding, fully paid and nonassessable, and not subject to any preemptive rights, rights of first refusal, tag-along rights, drag-along rights or other similar rights.

F. Non-contravention. The execution and delivery by the Company of the Documents, the issuance of the Securities, and the consummation by the Company of the other transactions contemplated hereby and thereby do not, and compliance with the provisions of this Agreement and other Documents will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or loss of a material benefit under, or result in the creation of any Lien (as such term is hereinafter defined) upon any of the properties or assets of the Company or any of its Subsidiaries under, or result in the termination of, or require that any consent be obtained or any notice be given with respect to (i) the Articles of Incorporation or By-Laws of the Company or the comparable charter or organizational documents of any of its Subsidiaries, in each case as amended to the date of this Agreement, (ii) any loan or credit agreement, note, bond, mortgage, indenture, lease, contract or other agreement, instrument or permit applicable to the Company or any of its Subsidiaries or their respective properties or assets or (iii) any Law (as such term is hereinafter defined) applicable to, or any judgment, decree or order of any court or government body having jurisdiction over, the Company or any of its Subsidiaries or any of their respective properties or assets.

G. Approvals. No authorization, approval or consent of any court or public or governmental authority is required to be obtained by the Company for the issuance and sale of the Securities to Buyer as contemplated by this Agreement, except such authorizations, approvals and consents as have been obtained by the Company prior to the date hereof.

H. Commission Filings. The Company has properly and timely filed with the Commission all reports, proxy statements, forms and other documents required to be filed with the Commission under the Securities Act and the Exchange Act since becoming subject to such Acts (the "Commission Filings"). As of their respective dates, (i) the Commission Filings complied in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the Commission promulgated thereunder applicable to such Commission Filings and (ii) none of the Commission Filings contained at the time of its filing any untrue statement of a material fact or

omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the Commission Filings, as of the dates of such documents, were true and complete in all material respects and complied with applicable accounting requirements and the published rules and regulations of the Commission with respect thereto, were prepared in accordance with generally accepted accounting principles in the United States ("GAAP") (except in the case of unaudited statements permitted by Form 10-Q under the Exchange Act) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly presented the consolidated financial position of the Company and its Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments that in the aggregate are not material and to any other adjustment described therein).

I. Full Disclosure. There is no fact known to the Company (other than general economic or industry conditions known to the public generally) that has not been fully disclosed in writing to Buyer that (i) reasonably could be expected to have a Material Adverse Effect or (ii) reasonably could be expected to materially and adversely affect the ability of the Company to performing its obligations pursuant to the Documents.

J. Absence of Events of Default. No "Event of Default" (as defined in any agreement or instrument to which the Company is a party) and no event which, with notice, lapse of time or both, would constitute an Event of Default (as so defined), has occurred and is continuing.

K. Securities Law Matters. Assuming the accuracy of the representations and warranties of Buyer set forth in Article II, the offer and sale by the Company of the Securities is exempt from (i) the registration and prospectus delivery requirements of the Securities Act and the rules and regulations of the Commission thereunder and (ii) the registration and/or qualification provisions of all applicable state and provincial securities and "blue sky" laws. The Company shall not directly or indirectly take, and shall not permit any of its directors, officers or Affiliates directly or indirectly to take, any action (including, without limitation, any offering or sale to any person or entity of any security similar to the Debenture, shares of Common Stock) which will make unavailable the exemption from Securities Act registration being relied upon by the Company for the offer and sale to Buyer of the Debenture (and the Conversion Shares) as contemplated by this Agreement. No form of general solicitation or advertising has been used or authorized by the Company or any of its officers, directors or Affiliates in connection with the offer or sale of the Debenture (and the Conversion Shares) as contemplated by this Agreement or any other agreement to which the Company is a party.

L. Registration Rights. Except as set forth on Schedule III.H., no Person has, and as of the Closing (as such term is hereinafter defined), no Person shall have, any demand, "piggy-back" or other rights to cause the Company to file any registration statement under the Securities Act relating to any of its securities or to participate in any such registration statement.

M. Interest. The timely payment of interest on the Debenture is not prohibited by the Articles of Incorporation or By-Laws of the Company, in each case as amended to the date of this Agreement, or any agreement, contract, document or other undertaking to which the Company or any of the Subsidiaries is a party.

N. No Misrepresentation. No representation or warranty of the Company contained in this Agreement or any of the other Documents, any schedule, annex or exhibit hereto or thereto or any agreement, instrument or certificate furnished by the Company to Buyer pursuant to this Agreement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

O. Finder's Fee. There is no finder's fee, brokerage commission or like payment in connection with the transactions contemplated by this Agreement for which Buyer is liable or responsible.

IV. CERTAIN COVENANTS AND ACKNOWLEDGMENTS

A. Restrictive Legend. Buyer acknowledges and agrees that, upon issuance pursuant to this Agreement, the Securities (including any Conversion Shares) shall have endorsed thereon a legend in substantially the following form (and a stop-transfer order may be placed against transfer of the Conversion Shares until such legend has been removed):

"THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE, AND ARE BEING OFFERED AND SOLD PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH LAWS. THESE SECURITIES MAY NOT BE SOLD OR TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR SUCH OTHER LAWS."

B. Filings. The Company shall make all necessary Commission Filings and "blue sky" filings required to be made by the Company in connection with the sale of the Securities to Buyer as required by all applicable Laws, and shall provide a copy thereof to Buyer promptly after such filing.

C. Reporting Status. So long as Buyer beneficially owns any of the Securities, the Company shall timely file all reports required to be filed by it with the Commission pursuant to Section 13 or 15(d) of the Exchange Act.

D. Listing. Except to the extent the Company lists its Common Stock on The New York Stock Exchange, The American Stock Exchange or The Nasdaq Stock Market, the Company shall use its best efforts to maintain its listing of the Common Stock on OTCBB. If the Common Stock is delisted from OTCBB, the Company will use its best efforts to list the Common Stock on the most liquid national securities exchange or quotation system that the Common Stock is qualified to be listed on.

E. Reserved Conversion Shares. The Company at all times from and after the date hereof shall have such number of shares of Common Stock duly and validly authorized and reserved for issuance as shall be sufficient for the conversion in full of the Debenture.

F. Information. Each of the parties hereto acknowledges and agrees that Buyer shall not be provided with, nor be given access to, any material non-public information relating to the Company.

G. Accounting and Reserves. The Company shall maintain a standard and uniform system of accounting and shall keep proper books and records and accounts in which full, true, and correct entries shall be made of its transactions, all in accordance with GAAP applied on consistent basis through all periods, and shall set aside on such books for each fiscal year all such reserves for depreciation, obsolescence, amortization, bad debts and other purposes in connection with its operations as are required by such principles so applied.

H. Transactions with Affiliates. Neither the Company nor any of its Subsidiaries shall, directly or indirectly, enter into any transaction or agreement with any stockholder, officer, director or Affiliate of the Company or family member of any officer, director or Affiliate of the Company, unless the transaction or agreement is (i) reviewed and approved by a majority of Disinterested Directors (as such term is hereinafter defined) and (ii) on terms no less favorable to the Company or the applicable Subsidiary than those obtainable from a nonaffiliated person. A "Disinterested Director" shall mean a director of the Company who is not and has not been an officer or employee of the Company and who is not a member of the family of, controlled by or under common control with, any such officer or employee.

I. Certain Restrictions. So long as the Debenture is outstanding, no dividends shall be declared or paid or set apart for payment nor shall any other distribution be declared or made upon any capital stock of the Company, nor shall any capital stock of the Company be redeemed, purchased or otherwise acquired (other than a redemption, purchase or other acquisition of shares of Common Stock made for purposes of an employee incentive or benefit plan (including a stock option plan) of the Company or pursuant to any of the security agreements listed on Schedule III.A, for any consideration by the Company, directly or indirectly, nor shall any moneys be paid to or made available for a sinking fund for the redemption of any shares of any such stock.

J. Short Selling; Manipulation. Buyer acknowledges its obligation under Regulation M promulgated under the Securities Act. In addition, so long as the Debenture is outstanding, so long as the Debenture is outstanding, Buyer agrees and covenants on its behalf and on behalf of its affiliates that neither Buyer nor its affiliates shall at any time engage in any short sales of, or hedging or arbitrage transactions with respect to the Company's Common Stock, or sell "put" options or similar instruments with respect to the Company's Common Stock.

V. TRANSFER AGENT INSTRUCTIONS

A. The Company undertakes and agrees that no instruction other than the instructions referred to in this Article V and customary stop transfer instructions prior to the registration and sale of the Common Stock pursuant to an effective Securities Act registration statement shall be given to its transfer agent for the Additional Shares and that the Conversion Shares shall otherwise be freely transferable on the books and records of the Company as and to the extent provided in this Agreement, the Registration Rights Agreement and applicable law. Nothing contained in this Section V.A. shall affect in any way Buyer's obligations and agreement to comply with all applicable securities laws upon resale of such Common Stock. If, at any time, Buyer provides the Company with an opinion of counsel reasonably satisfactory to the Company that registration of the resale by Buyer of such Common Stock is not required under the Securities Act and that the removal of restrictive legends is permitted under applicable law, the Company shall permit the transfer of such Common Stock and promptly instruct the Company's transfer agent to issue one or more certificates for Common Stock without any restrictive legends endorsed thereon.

B. Buyer shall have the right to convert the Debenture by telecopying an executed and completed Conversion Notice (as such term is defined in the Debenture) to the Company. Each date on which a Conversion Notice is telecopied to and received by the Company in accordance with the provisions hereof shall be deemed a Conversion Date (as such term is defined in the Debenture). The Company shall transmit the certificates evidencing the shares of Common Stock issuable upon conversion of the Debenture (together with a new debenture, if any, representing the principal amount of the Debenture not being so converted) to Buyer via express courier, by electronic transfer or otherwise, within five (5) business days after receipt by the Company of the Conversion Notice (the "Delivery Date"). Within thirty (30) days after Buyer delivers the Conversion Notice to the Company, Buyer shall deliver to the Company the Debenture being converted.

The Securities shall be delivered by the Company to the Escrow Agent pursuant to Section I.B. hereof on a "delivery-against-payment basis" at the Closing.

VI. CLOSING DATE

The Closing shall occur by the delivery to the Buyer of the certificate evidencing the Debenture, the Additional Shares, and all other Agreements and to the Company the Purchase Price. Notwithstanding anything to the contrary contained herein, the Escrow Agent shall not be authorized to release to the Company the Purchase Price or to Buyer the certificate(s) (I/N/O Buyer or I/N/O Buyer's nominee) evidencing the Debenture unless the conditions set forth in Sections VIII.C and IX.G have been satisfied.

VII. CONDITIONS TO THE COMPANY'S OBLIGATIONS

Buyer understands that the Company's obligation to sell the Debenture and issue the Additional Shares on the Closing Date to Buyer pursuant to this Agreement is conditioned upon:

A. Delivery by Buyer of the Purchase Price;

B. The accuracy on the Closing Date of the representations and warranties of Buyer contained in this Agreement as if made on the Closing Date (except for representations and warranties which, by their express terms, speak as of and relate to a specified date, in which case such accuracy shall be measured as of such specified date) and the performance by Buyer in all material respects on or before the Closing Date of all covenants and agreements of Buyer required to be performed by it pursuant to this Agreement on or before the Closing Date and

C. There shall not be in effect any Law or order, ruling, judgment or writ of any court or public or governmental authority restraining, enjoining or otherwise prohibiting any of the transactions contemplated by this Agreement.

VIII. CONDITIONS TO BUYER'S OBLIGATIONS

The Company understands that Buyer's obligation to purchase the Securities on the Closing Date pursuant to this Agreement is conditioned upon:

A. Delivery by the Company of the Debenture the Additional Shares and the other Agreements (I/N/O Buyer or I/N/O Buyer's nominee);

B. The accuracy on the Closing Date of the representations and warranties of the Company contained in this Agreement as if made on the Closing Date (except for representations and warranties which, by their express terms, speak as of and relate to a specified date, in which case such accuracy shall be measured as of such specified date) and the performance by the Company in all respects on or before the Closing Date of all covenants and agreements of the Company required to be performed by it pursuant to this Agreement on or before the Closing Date, all of which shall be confined to Buyer by delivery of the certificate of the chief executive officer of the Company to that effect;

C. There not having occurred (i) any general suspension of trading in, or limitation on prices listed for, the Common Stock on the OTCBB/Pink Sheet, (ii) the declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, (iii) the commencement of a war, armed hostilities or other international or national calamity directly or indirectly involving the United States or any of its territories, protectorates or possessions or (iv) in the case of the foregoing existing at the date of this Agreement, a material acceleration or worsening thereof,

D. There not having occurred any event or development, and there being in existence no condition, having or which reasonably and foreseeably could have a Material Adverse Effect;

E. The Company shall have delivered to Buyer (as provided in the Escrow Instructions) reimbursement of Buyer's reasonable out-of-pocket costs and expenses incurred in connection with the transactions contemplated by this Agreement

F. There shall not be in effect any Law, order, ruling, judgment or writ of any court or public or governmental authority restraining, enjoining or otherwise prohibiting any of the transactions contemplated by this Agreement;

G. The Company shall have obtained all consents, approvals or waivers from governmental authorities and third persons necessary for the execution, delivery and performance of the Documents and the transactions contemplated thereby, all without material cost to the Company; and

H. Buyer shall have received such additional documents, certificates, payment, assignments, transfers and other delivers as it or its legal counsel may reasonably request and as are customary to effect a closing of the matters herein contemplated.

I. Delivery by the Company of an enforceability opinion from its outside counsel in form and substance satisfactory to Buyer.

J. Reimbursement of Buyer's outside legal fees not to exceed \$3,500.

IX. SURVIVAL; INDEMNIFICATION

A. The representations, warranties and covenants made by each of the Company and Buyer in this Agreement, the annexes, schedules and exhibits hereto and in each instrument, agreement and certificate entered into and delivered by them pursuant to this Agreement shall survive the Closing and the consummation of the transactions contemplated hereby. In the event of a breach or violation of any of such representations, warranties or covenants, the party to whom such representations, warranties or covenants have been made shall have all rights and remedies for such breach or violation available to it under the provisions of this Agreement or otherwise, whether at law or in equity, irrespective of any investigation made by or on behalf of such party on or prior to the Closing Date.

B. The Company hereby agrees to indemnify and hold harmless Buyer, its affiliates and their respective officers, directors, partners and members (collectively, the "Buyer Indemnitees") from and against any and all losses, claims, damages, judgments, penalties, liabilities and deficiencies (collectively, "Losses") and agrees to reimburse Buyer Indemnitees for all out-of-pocket expenses (including the fees and expenses of legal counsel), in each case promptly as incurred by Buyer Indemnitees and to the extent arising out of or in connection with:

1. any misrepresentation, omission of fact or breach of any of the Company's representations or warranties contained in this Agreement or the other Documents, or the annexes, schedules or exhibits hereto or thereto or any instrument, agreement or certificate entered into or delivered by the Company pursuant to this Agreement or the other Documents;

2. any failure by the Company to perform any of its covenants, agreements, undertakings or obligations set forth in this Agreement or the other Documents or any instrument, certificate or agreement entered into or delivered by the Company pursuant to this Agreement or the other Documents;

C. Buyer hereby agrees to indemnify and hold harmless the Company, its Affiliates and their respective officers, directors, partners and members (collectively, the "Company Indemnitees") from and against any and all Losses, and agrees to reimburse the Company Indemnitees for all out-of-pocket expenses (including the fees and expenses of legal counsel), in each case promptly as incurred by the Company Indemnitees and to the extent arising out of or in connection with:

1. any misrepresentation, omission of fact or breach of any of Buyer's representations or warranties contained in this Agreement or the other Documents, or the annexes, schedules or exhibits hereto or thereto or any instrument, agreement or certificate entered into or delivered by Buyer pursuant to this Agreement or the other Documents or

2. any failure by Buyer to perform in any material respect any of its covenants, agreements, undertakings or obligations set forth in this Agreement or the other Documents or any instrument, certificate or agreement entered into or delivered by Buyer pursuant to this Agreement or the other Documents.

D. Promptly after receipt by either party hereto seeking indemnification pursuant to this Article X (an "Indemnified Party") of written notice of any investigation, claim, proceeding or other action in respect of which indemnification is being sought (each, a "Claim"), the Indemnified Party promptly shall notify the party against whom indemnification pursuant to this Article X is being sought (the "Indemnifying Party") of the commencement thereof, but the omission so to notify the Indemnifying Party shall not relieve it from any liability that it otherwise may have to the Indemnified Party except to the extent that the Indemnifying Party is materially prejudiced and forfeits substantive rights or defenses by reason of such failure. In connection with any Claim as to which both the Indemnifying Party and the Indemnified Party are parties, the Indemnifying Party shall be entitled to assume the defense thereof.

Notwithstanding the assumption of the defense of any Claim by the Indemnifying Party, the Indemnified Party shall have the right to employ separate legal counsel and to participate in the defense of such Claim, and the Indemnifying Party shall bear the reasonable fees, out-of-pocket costs and expenses of such separate legal counsel to the Indemnified Party if (and only if): (x) the Indemnifying Party shall have agreed to pay such fees, out-of-pocket costs and expenses, (y) the Indemnified Party and the Indemnifying Party reasonably shall have concluded that representation of the Indemnified Party and the Indemnifying Party by the same legal counsel would not be appropriate due to actual or, as reasonably determined by legal counsel to the Indemnified Party, potentially differing interests between such parties in the conduct of the defense of such Claim, or if there may be legal defenses available to the Indemnified Party that are in addition to or disparate from those available to the Indemnifying Party or (z) the Indemnifying Party shall have failed to employ legal counsel reasonably satisfactory to the Indemnified Party within a reasonable period of time after notice of the commencement of such Claim. If the Indemnified Party employs separate legal counsel in circumstances other than as described in clauses (x), (y) or (z) above, the fees, costs and expenses of such legal counsel shall be borne exclusively by the Indemnified Party. Except as provided above, the Indemnifying Party shall not, in connection with any Claim in the same jurisdiction, be liable for the fees and expenses of more than one firm of legal counsel for the Indemnified Party (together with appropriate local counsel). The Indemnifying Party shall not, without the prior written consent of the Indemnified Party (which consent shall not unreasonably be withheld), settle or compromise any Claim or consent to the entry of any judgment that does not include an unconditional release of the Indemnified Party from all liabilities with respect to such Claim or judgment.

E. In the event one party hereunder should have a claim for indemnification that does not involve a claim or demand being asserted by a third party, the Indemnified Party promptly shall deliver notice of such claim to the Indemnifying Party. If the Indemnified Party disputes the claim, such dispute shall be resolved by mutual agreement of the Indemnified Party and the Indemnifying Party or by binding arbitration conducted in accordance with the procedures and rules of the American Arbitration Association. Judgment upon any award rendered by any arbitrators may be entered in any court having competent jurisdiction thereof.

X. GOVERNING LAW

This Agreement shall be governed by and interpreted in accordance with the laws of the Commonwealth of Pennsylvania, without regard to the conflicts of law principles of such state.

XI. SUBMISSION TO JURISDICTION

Each of the parties hereto consents to the exclusive jurisdiction of the federal courts whose districts encompass any part of the City of Wayne or the state courts of the State of Pennsylvania in connection with any dispute arising under this Agreement and the other Documents. Each party hereto hereby irrevocably and unconditionally waives, to the fullest extent it may effectively do so, any defense of an inconvenient

forum or improper venue to the maintenance of such action or proceeding in any such court and any right of jurisdiction on account of its place of residence or domicile. Each party hereto irrevocably and unconditionally consents to the service of any and all process in any such action or proceeding in such courts by the mailing of copies of such process by registered or certified mail (return receipt requested), postage prepaid, at its address specified in Article XIX. Each party hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

XII. WAIVER OF JURY TRIAL

TO THE FULLEST EXTENT PERMITTED BY LAW, EACH OF THE PARTIES HERETO HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY OTHER DOCUMENT OR ANY DEALINGS BETWEEN THEM RELATING TO THE SUBJECT MATTER OF THIS AGREEMENT AND OTHER DOCUMENTS. EACH PARTY HERETO (i) CERTIFIES THAT NEITHER OF THEIR RESPECTIVE REPRESENTATIVES, AGENTS OR ATTORNEYS HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS AND (ii) ACKNOWLEDGES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS HEREIN.

XIII. COUNTERPARTS; EXECUTION

This Agreement may be executed in two (2) counterparts, each of which when so executed and delivered shall be an original, but both of which counterparts shall together constitute one and the same instrument. A facsimile transmission of this signed Agreement shall be legal and binding on both parties hereto.

XIV. HEADINGS

The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

XV. SEVERABILITY

In the event any one or more of the provisions contained in this Agreement or in the other Documents should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

XVI. ENTIRE AGREEMENT; REMEDIES, AMENDMENTS AND WAIVERS

This Agreement, the Documents, the Guaranties and the Trust Deeds constitute the entire agreement between the parties hereto pertaining to the subject matter hereof and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of such parties. No supplement, modification or waiver of this Agreement shall be binding unless executed in writing by both parties. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

XVII. NOTICES

Except as may be otherwise provided herein, any notice or other communication or delivery required or permitted hereunder shall be in writing and shall be delivered personally, or sent by telecopier machine or by a nationally recognized overnight courier service, and shall be deemed given when so delivered personally, or by telecopier machine or overnight courier service as follows:

A. if to the Company, to:

USA TECHNOLOGIES, Inc.
200 Plant Ave.
Wayne, PA 19087
Attention: George Jensen
Telecopier: (610) 989-0344
Telephone: (610) 989-0340

B. if to Buyer, to:

La Jolla Cove Investors, Inc.
Suite 200
7817 Herschel Avenue
La Jolla, California 92037
Attention: Travis Huff
Telecopier: 858.551.0987
Telephone: 858.551.8703

with a copy to:

Loeb & Loeb LLP
Suite 2200
10100 Santa Monica Boulevard
Los Angeles, California 90067
Attention: David Ficksman, Esq.
Telecopier: 310.282.2192
Telephone: 310.282.2000

The Company, Buyer or the Escrow Agent may change the foregoing address by notice given pursuant to this Article XIX.

XVIII. CONFIDENTIALITY

Each of the Company and Buyer agrees to keep confidential and not to disclose to or use for the benefit of any third party the terms of this Agreement or any other information which at any time is communicated by the other party as being confidential without the prior written approval of the other party; provide, however, that this provision shall not apply to information which, at the time of disclosure, is already part of the public domain (except by breach of this Agreement) and information which is required to be disclosed by law (including, without limitation, pursuant to Item 601(b)(10) of Regulation S-K under the Securities Act and the Exchange Act).

XIX. ASSIGNMENT

This Agreement shall not be assignable by either of the parties hereto prior to the Closing without the prior written consent of the other party, and any attempted assignment contrary to the provisions hereby shall be null and void; provide, however, that Buyer may assign its rights and obligations hereunder, in whole or in part, to any affiliate of Buyer.

IN WITNESS WHEREOF, the parties hereto have duly caused this Agreement to be executed and delivered on the date first above written.

USA TECHNOLOGIES, Inc.,
a Pennsylvania Corporation

By: /s/ George R. Jensen, Jr.

George R. Jensen, Jr.
Chief Executive Officer

La Jolla Cove Investors, Inc.

By: /s/ Travis Huff

Name: Travis Huff
Title: Portfolio Manager

Conversion Warrants

THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT FOR DISTRIBUTION, AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED NEITHER THE WARRANT NOR THE SHARES MAY BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED. THIS WARRANT MUST BE SURRENDERED TO THE COMPANY OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE SALE, PLEDGE OR OTHER TRANSFER OF ANY INTEREST IN THIS WARRANT OR THE SHARES ISSUABLE HEREUNDER.

WARRANT TO PURCHASE COMMON STOCK

Issuer: USA Technologies Inc.
Class of Stock: Class A Common Stock
Issue Date: August 2, 2001
Expiration Date: August 2, 2003

THIS WARRANT TO PURCHASE COMMON STOCK is being issued pursuant to that certain Securities Purchase Agreement dated as of the date hereof (the "Purchase Agreement") between USA Technologies Inc., a Pennsylvania corporation (the "Company") and La Jolla Cove Investors, Inc. ("Holder"). Pursuant to the Purchase Agreement, the Company hereby grants to Holder the right to purchase that number of shares of the Company's Class A Common Stock (the "Warrant Shares") at a multiple equal to 10 times the number of shares of Common Stock issued to Holder from time to time pursuant to the conversion of the Debenture (as such term is defined in the Purchase Agreement). For avoidance of doubt, this Warrant may be exercisable only concurrently with or subsequent to the issuance of a Conversion Notice under the Debenture. The date that the Holder issues a Conversion Notice is hereafter referred to as the "Conversion Date."

This warrant shall expire and Holder shall no longer be able to purchase the Shares on August 2, 2003.

ARTICLE 1
EXERCISE

1.1 Method of Exercise. Holder may exercise this warrant by delivering a duly executed Notice of Exercise in substantially the form attached as Appendix 1 to the principal office of the Company, along with a check payable to the Company for the aggregate Exercise Price for the Share being purchased.

1.2 Delivery of Certificate and New Warrant Delivery of Certificate and New Warrant. Upon the exercise by Holder of this warrant, the Company shall deliver to Holder a stock certificate representing the Shares acquired and, if this warrant has not been fully exercised and has not expired, a new warrant substantially in the form of this warrant representing the right to acquire the portion of the Shares not so acquired.

1.3 Replacement of Warrants. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of mutilation, or surrender and cancellation of this warrant, the Company at its expense shall execute and deliver, in lieu of this warrant, a new warrant of like tenor.

1.4 Exercise Price. The Exercise Price of this warrant shall be the lesser of (y) \$1.00 or (x) eighty percent (80%) of the lowest Market Price during the twenty (20) trading days prior to Holder's election to convert.

ARTICLE 2 ADJUSTMENT TO THE SHARES

The number of Shares purchasable upon the exercise of this warrant and the Exercise Price shall be subject to adjustment from time to time upon the occurrence of certain events, as follows:

2.1 Reclassification. In case of any reclassification or change of outstanding securities of the class issuable upon exercise of this warrant then, and in any such case, the Holder, upon the exercise hereof at any time after the consummation of such reclassification or change, shall be entitled to receive in lieu of each Share theretofore issuable upon exercise of this warrant, the kind and amount of shares of stock, other securities, money and/or property received upon such reclassification or change by a holder of one Share. The provisions of this Section 2.1 shall similarly apply to successive reclassifications or changes.

2.2 Subdivision or Combination of Shares. If the Company at any time while this warrant remains outstanding and unexpired shall subdivide or combine its Shares, the Exercise Price shall be proportionately decreased in the case of a subdivision or increased in the case of a combination.

2.3 Stock Dividends. If the Company, at any time while this warrant is outstanding shall pay a dividend with respect to its Shares payable in Shares, or make any other distribution of Shares with respect to Shares (except any distribution specifically provided for in Section 2.1 and Section 2.2 above), then the Exercise Price shall be adjusted, effective from and after the date of determination of shareholders entitled to received such dividend or distribution, to that price determined by multiplying the Exercise Price in effect immediately prior to such date of determination by a fraction, (a) the numerator of which shall be the total number of Shares outstanding immediately prior to such dividend or distribution, and (b) the denominator of which shall be the total number of Shares outstanding immediately after such dividend or distribution.

2.4 Non-Cash Dividends. If the Company at any time while this warrant is outstanding shall pay a dividend with respect to Shares payable in securities other than Shares or other non-cash property, or make any other distribution of such securities or property with respect to Shares (except any distribution specifically provided for in Section 2.1 and Section 2.2 above), then this warrant shall represent the right to acquire upon exercise of this warrant such securities or property which a holder of Shares would have been entitled to receive upon such dividend or distribution, without the payment by the Holder of any additional consideration for such securities or property.

2.5 Effect of Reorganization and Asset Sales. If any (i) reorganization or reclassification of the Common Stock (ii) consolidation or merger of the Company with or into another corporation, or (iii) sale or all or substantially all of the Company's operating assets to another corporation followed by a liquidation of the Company (any such transaction shall be followed by a liquidation of the Company (any such transaction shall be referred to herein as an "Event", is effected in such a way that holders of common Stock are of Common Stock are entitled to receive securities and/or assets as a result of their Common Stock ownership, the Holder, upon exercise of this warrant, shall be entitled to receive such shares of stock securities or assets which the Holder would have received had it fully exercised this warrant on or prior the record date for such Event. The Company shall not merge into or consolidate with another corporation or sell all of its assets to another corporation for a consideration consisting primarily of securities or such corporation, unless the successor or acquiring corporation, as the case may be, shall expressly assume the due and punctual observance and performance of each and every covenant and condition of this warrant to be performed or observed by the Company and all of the obligations and liabilities hereunder, subject to such modification as shall be necessary to provide for adjustments which shall be as nearly equivalent as practicable to the adjustments provided for in this Section 2. The foregoing provisions shall similarly apply to successive mergers, consolidations or sales of assets.

2.6 Adjustment of Number of Shares. Upon each adjustment in the Exercise Price, the number of Shares shall be adjusted, to the nearest whole share, to the product obtained by multiplying the number of Shares, purchasable immediately prior to such adjustment and the denominator of which shall be the Exercise Price immediately thereafter.

2.7 No Impairment. The Company shall not, by amendment of its Amended and Restated Articles of Incorporation or through a reorganization, transfer of assets, consolidation, merger, dissolution, issue, or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed under this warrant by the Company, but shall at all times in good faith assist in carrying out all of the provisions of this warrant and in taking all such action as may be reasonably necessary or appropriate to protect Holder's rights hereunder against impairment. If the Company takes any action affecting its Common Stock other than as described above that adversely affects Holder's rights under this warrant, the Exercise Price shall be adjusted downward and the number of Shares issuable upon exercise of this warrant shall be adjusted upward in such a manner that the aggregate Exercise Price of this Warrant is unchanged.

2.8 Fractional Shares. No fractional Shares shall be issuable upon the exercise of this warrant, and the number of Shares to be issued shall be rounded down to the nearest whole Share.

2.9 Certificate as to Adjustments. Upon any adjustment of the Exercise Price, the Company, at its expense, shall compute such adjustment and furnish Holder with a certificate of its Chief Financial Officer setting forth such adjustment and the facts upon which such adjustment is based. The Company shall, upon written request, furnish Holder a certificate setting forth the Exercise Price in effect upon the date thereof and the series of adjustments leading to such Exercise Price.

2.10 No Rights of Shareholders. This warrant does not entitle Holder to any voting rights or any other rights as a shareholder of the Company prior to the exercise of Holder's right to purchase Shares as provided herein.

ARTICLE 3
REPRESENTATIONS AND COVENANTS OF THE COMPANY

3.1 Representations and Warranties. The Company hereby represents and warrants to Holder that all Shares which may be issued upon the exercise of the purchase right represented by this warrant, shall, upon issuance, be duly authorized, validly issued, fully paid and nonassessable, and free of any liens and encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws.

3.2 Notice of Certain Events. If the company proposes at any time (a) to declare any dividend or distribution upon its Common Stock, whether in cash, property, stock, or other securities and whether or not a regular cash dividend; (b) to offer for subscription pro rata to the holders of any class or series of its stock any additional shares of stock of any class or series or other rights; (c) to effect any reclassification or recapitalization of Common Stock; (d) to merge or consolidate with or into any other corporation, or sell, lease, license, or convey all or substantially all of its assets, or to liquidate, dissolve or wind up; or (e) offer holders of registration rights the opportunity to participate in an underwritten public offering of the Company's securities for cash, then, in connection with each such event, the Company shall give Holder (1) at least 20 days prior written notice of the date on which a record will be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of Common Stock will be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (c) and (d) above; (2) in the case of the matters referred to in (c) and (d) above at least 20 days prior written notice of the date when the same will take place (and specifying the date on which the holders of Common Stock will be entitled to exchange their Common Stock for securities or other property deliverable upon the occurrence of such event); and (3) in the case of the matter referred to in (e) above, the same notice as is given to the holders of such registration rights.

3.3 Information Rights. So long as Holder holds this warrant and/or any of the Shares, the company shall deliver to Holder (a) promptly after mailing, copies of all notices or other written communications to the shareholders of the Company,

(b) within ninety (90) days of their availability, the annual audited financial statements of the Company certified by independent public accountants of recognized standing, and (c) within forty-five (45) days after the end of each fiscal quarter or each fiscal year, the Company's quarterly, unaudited financial statements.

3.4 Reservation of Warrant Shares. The Company has reserved and will keep available, out of the authorized and unissued shares of Common Stock, the full number of shares sufficient to provide for the exercise of the rights of purchase represented by this warrant.

3.5 Registration Rights. If Holder exercises this warrant and purchases some or all of the Shares, Holder shall have the Registration Rights set forth in that certain Registration Rights Agreement executed concurrent therewith.

ARTICLE 4 REPRESENTATIONS AND COVENANTS OF THE HOLDER

4.1 Investment Purpose. Holder's right to acquire Shares is being acquired for investment and not with a view to the sale or distribution of any part thereof, and Holder has no present intention of selling or engaging in any public distribution of the same except pursuant to a registration or exemption.

4.2 Private Issue. Holder understands (i) that the Shares issuable upon exercise of Holder's rights contained in the warrant are not registered under the Act or qualified under applicable state securities laws on the ground that the issuance contemplated by the warrant will be except from the registration and qualifications requirements thereof, and (ii) that the Company's reliance on such exemption is predicated on Holder's representations set forth in this Article 4.

4.3 Financial Risk. Holder has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment and has the ability to bear the economic risks of its investment.

4.4 Risk of No Registration. Holder understands that if the Company does not register with the Securities and Exchange Commission pursuant to Section 12 of the Act, or file reports pursuant to Section 15(d), of the Securities Exchange Act of 1934 (the "1934 Act"), or if a registration statement covering the securities under the Act is not in effect when it desires to sell (i) the right to purchase Shares pursuant to the warrant, or (ii) the Shares issuable upon exercise of the right to purchase, it may be required to hold such securities for an indefinite period.

4.5 Accredited Investor. Holder is an "accredited investor," as such term is defined in Regulation D promulgated pursuant to the Act.

ARTICLE 5
MISCELLANEOUS

5.1 Term. This warrant is exercisable, in whole or in part, at any time and from time to time on or after the Conversion Date and on or before the Expiration Date set forth above.

5.2 Legends. This warrant and the Shares shall be imprinted with a legend in substantially the following form:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE CORPORATION AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED. THIS CERTIFICATE MUST BE SURRENDERED TO THE CORPORATION OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE SALE, PLEDGE OR OTHER TRANSFER OF ANY OF THE SHARES REPRESENTED BY THIS CERTIFICATE

5.3 Compliance with Securities Laws on Transfer. This warrant may not be transferred or assigned in whole or in part without compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably requested by the Company) and without the prior written consent of the Company, which consent shall not be unreasonably withheld, provided that Holder shall have the right without the consent of the Company to transfer or assign in whole or in part this warrant and the Shares issuable upon exercise of this warrant to any of Holder's affiliates, successors, assigns or the United States Federal Reserve Board. The Company shall not require Holder to provide an opinion of counsel if the transfer is to an affiliate of Holder.

5.4 Transfer Procedure. Holder agrees that unless there is in effect a registration statement under the Act covering the proposed transfer of all or part of this warrant, prior to any such proposed transfer the Holder shall give written notice thereof to the Company (a "Transfer Notice"). Each Transfer Notice shall describe the manner and circumstances of the proposed transfer in reasonable detail and, if the company so requests, shall be accompanied by an opinion of legal counsel, in a form reasonably satisfactory to the Company, to the effect that the proposed transfer may be effected without registration under the Act; provided that the Company will not require opinions of counsel for transactions involving transfers to affiliates or pursuant to Rule 144

promulgated by the Securities and Exchange Commission under the act, except in unusual circumstances.

5.5 Notices, etc. All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed if to a Holder, at such Holder's address set forth on the signature page hereof or at such other address as such Holder shall have furnished to the Company in writing, or if to the Company, to the following address:

USA Technologies Inc.
200 Plant Ave.
Wayne, PA 19087
Attention: George Jensen
Tel: (610) 989-0340
Fax:(610) 989-0344

or at such other address as the Company shall have furnished to the Holder. Each such notice or other communication shall for all purposes of this agreement be treated as effective or having been given when delivered if delivered personally, or, if sent by mail, at the earlier of its receipt or five days after the same has been deposited in a regularly maintained receptacle for the deposit of the United States mail, addressed and mailed as aforesaid.

5.6 Counterparts. This agreement may be executed in any number of counterparts, each of which shall be enforceable against the parties actually executing such counterparts, and all of which together shall constitute one instrument.

5.7 Waiver. This warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

5.8 Attorneys Fees. In the event of any dispute between the parties concerning the terms and provisions of this warrant, the party prevailing in such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable attorneys fees.

5.9 Governing Law. This warrant shall be governed by and construed in accordance with the laws of the State of California, without giving effect to its principles regarding conflicts of law.

"COMPANY"

USA TECHNOLOGIES INC.

By: _____
Title: _____

"HOLDER"

LA JOLLA COVE INVESTORS, INC.

By: _____

Title: _____

Address:

Suite 200
7817 Herschel Avenue
La Jolla, California 92037
Facsimile No. (858) 551-0987

APPENDIX 1

NOTICE OF EXERCISE

1. The undersigned hereby elects to purchase _____ shares of the Common Stock of USA Technologies Inc. pursuant to the terms of the attached warrant, and tenders herewith payment of the purchase price of such shares in full.

2. Please issue a certificate or certificates representing said shares in the name of the undersigned or in such other name as is specified below:

(Name)

(Address)

3. The undersigned makes the representations and covenants set forth in Article 4 of the warrant agreement, a copy of which is attached hereto.

(Signature)

(Date)

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE, AND IS BEING OFFERED AND SOLD PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH LAWS. THIS SECURITY MAY NOT BE SOLD OR TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR SUCH OTHER LAWS.

9 3/4% CONVERTIBLE DEBENTURE
Due August 2, 2003

\$225,000

USA TECHNOLOGIES, Inc., a Pennsylvania corporation, with principal executive offices located at 200 Plant Avenue, Wayne, PA 19087 (the "Company"), for value received, hereby promises to pay to the Holder (as such term is hereinafter defined), or such other Person (as such term is hereinafter defined) upon order of the Holder, on August 2, 2003 (the "Maturity Date"), the principal sum of Two Hundred Twenty-Five Thousand Dollars (\$225,000), as such sum may be adjusted pursuant to Article 3, and to pay interest thereon from the date hereof, monthly in arrears, on the last day of each month (each an "Interest Payment Due Date" and collectively, the "Interest Payment Due Dates"), commencing on August 30, 2001, at the rate of nine percent (9 3/4%) per annum compounded daily (the "Debenture Interest Rate"), until the Principal Amount (as such term is hereinafter defined) of this Debenture has been paid in full. The interest payable on any Interest Payment Due Date shall be paid to the Person in whose name this Debenture is registered at the close of business on the fifteenth (15th) day next preceding the applicable Interest Payment Due Date and all interest payable on the Principal Amount of this Debenture shall be calculated on the basis of a 360-day year for the actual number of days elapsed. Payment of interest on this Debenture shall be in cash.

ARTICLE 1
DEFINITIONS

SECTION 1.1 Definitions. The terms defined in this Article whenever used in this Debenture have the following respective meanings:

(i) "Affiliate" has the meaning ascribed to such term in Rule 12b-2 under the Securities Exchange Act of 1934, as amended.

(ii) "Bankruptcy Code" means the United States Bankruptcy Code of 1986, as amended (11 U.S.C. ss.ss. 101 et. seq.).

(iii) "Business Day" means a day other than Saturday, Sunday or any day on which banks located in the State of California are authorized or obligated to close.

(iv) "Capital Shares" means the Common Stock and any other shares of any other class or series of capital stock, whether now or hereafter authorized and however designated, which have the right to participate in the distribution of earnings and assets (upon dissolution, liquidation or winding-up) of the Company.

(v) "Closing Date" means August 2, 2001.

(vi) "Common Shares" or "Common Stock" means shares of the Company's Common Stock.

(vii) "Common Stock Issued at Conversion", when used with reference to the securities deliverable upon conversion of this Debenture, means all Common Shares now or hereafter Outstanding and securities of any other class or series into which this Debenture hereafter shall have been changed or substituted, whether now or hereafter created and however designated.

(viii) "Company" means USA TECHNOLOGIES, Inc., a Pennsylvania corporation, and any successor or resulting corporation by way of merger, consolidation, sale or exchange of all or substantially all of the Company's assets or otherwise.

(ix) "Conversion" or "conversion" means the repayment by the Company of the Principal Amount of this Debenture (and, to the extent the Holder elects as permitted by Section 3.1, accrued and unpaid interest thereon) by the delivery of Common Stock on the terms provided in Section 3.2, and "convert," "converted," "convertible" and like words shall have a corresponding meaning.

(x) "Conversion Date" means any day on which all or any portion of the Principal Amount of this Debenture is converted in accordance with the provisions hereof.

(xi) "Conversion Notice" means a written notice of conversion substantially in the form annexed hereto as Exhibit A.

(xii) "Conversion Price" on any date of determination means the applicable price for the conversion of this Debenture into Common Shares on such day as set forth in Section 3.1(a).

(xiii) "Current Market Price" on any date of determination means the closing price of a Common Share on such day as reported on the NASDAQ OTCBB Exchange; provided that, if such security is not listed or admitted to trading on the NASDAQ OTCBB, as reported on the principal national security exchange or quotation system on which such security is quoted or listed or admitted to trading, or, if not quoted or listed or admitted to trading on any national securities exchange or quotation system, the closing bid price of such security on the over-the-counter market on the day in question as reported by Bloomberg LP or a similar generally accepted reporting service, as the case may be.

(xiv) "Deadline" means the date which is the 90th day from the Closing Date.

(xv) "Debenture" or "Debentures" means this 9 3/4% Convertible Debenture due August 2, 2003 of the Company or such other convertible debenture(s) exchanged therefor as provided in Section 2.1. (xvi) "Default Interest Rate" shall be equal to the Debenture Interest Rate plus an additional four percent (4%) per annum calculated on the basis of a 360-day year.

(xvii) "Discount Multiplier" has the meaning set forth in Section 3.1(a).

(xviii) "Event of Default" has the meaning set forth in Section 6.1.

(xix) "Holder" means La Jolla Cove Investors, Inc., any successor thereto, or any Person to whom this Debenture is subsequently transferred in accordance with the provisions hereof.

(xx) "Interest Payment Due Date" has the meaning set forth in the opening paragraph of this Debenture.

(xxi) "Market Disruption Event" means any event that results in a material suspension or limitation of trading of the Common Shares.

(xxii) "Market Price" per Common Share means the closing bid price of the Common Shares as reported on the NASDAQ OTCBB; provided that, if such security is not listed or admitted to trading on the NASDAQ OTCBB, as reported on the principal national security exchange or quotation system on which such security is quoted or listed or admitted to trading, or, if not quoted or listed or admitted to trading on any national securities exchange or quotation system, the closing bid price of the Common Shares on the over-the-counter market as reported by Bloomberg LP or a similar generally accepted reporting service, the case may be.

(xxiii) "Maximum Rate" has the meaning set forth in Section 6.3.

(xxiv) "Outstanding" when used with reference to Common Shares or Capital Shares (collectively, "Shares") means, on any date of determination, all issued and outstanding Shares, and includes all such Shares issuable in respect of outstanding scrip or any certificates representing fractional interests in such Shares; provided, however, that any such Shares directly or indirectly owned or held by or for the account of the Company or any Subsidiary of the Company shall not be deemed "Outstanding" for purposes hereof.

(xxv) "Person" means an individual, a corporation, a partnership, an association, a limited liability company, an unincorporated business organization, a trust or other entity or organization, and any government or political subdivision or any agency or instrumentality thereof.

(xxvi) "Principal Amount" means, for any date of calculation, the principal sum set forth in the first paragraph of this Debenture (but only such principal amount as to which the Holder has not theretofore furnished a Conversion Notice in compliance with Section 3.2).

(xxvii) "Registration Rights Agreement" means that certain Registration Rights Agreement dated as of August 2, 2001 by and between the Company and Holder, as the same may be amended from time to time.

(xxviii) "SEC" means the United States Securities and Exchange Commission.

(xxix) "Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations of the SEC thereunder, all as in effect at the time.

(xxx) "Securities Purchase Agreement" means that certain Securities Purchase Agreement dated as of August 2, 2001 by and among the Company, Holder and Loeb & Loeb, LLP (solely as Escrow Agent), as the same may be amended from time to time.

(xxxi) "Subsidiary" means any entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are owned directly or indirectly by the Company.

(xxxii) "Trading Day" means any day on which (i) purchases and sales of securities on the principal national security exchange or quotation system on which the Common Shares are traded are reported thereon, or, if not quoted or listed or admitted to trading on any national securities exchange or quotation system, as reported by Bloomberg LP or a similar generally accepted reporting service, as the case may be, (ii) at least one bid for the trading of Common Shares is reported and (iii) no Market Disruption Event occurs.

All references to "cash" or "\$" herein means currency of the United States of America.

ARTICLE 2 EXCHANGES, TRANSFER AND OPTIONAL REDEMPTION

SECTION 2.1 Exchange and Registration of Transfer of Debentures. The Holder may, at its option, surrender this Debenture at the principal executive offices of the Company and receive in exchange therefor a Debenture or Debentures, each in the denomination of \$10,000 or an integral multiple of \$1,000 in excess thereof, dated as of the date of this Debenture (which shall accrue interest from the most recent Interest Payment Due Date on which an interest payment was made in full), and payable to such Person or order as may be designated by such Holder. The aggregate Principal Amount of the Debenture or Debentures exchanged in accordance with this Section 2.1 shall equal the aggregate unpaid Principal Amount of this Debenture as of the date of such surrender; provided, however, that upon any exchange pursuant to this Section 2.1 there shall be filed with the Company the name and address for all purposes hereof of the Holder or Holders of the Debenture or Debentures delivered in such exchange. This Debenture, when presented for registration of transfer or for exchange or conversion, shall (if so required by the Company) be duly endorsed, or be accompanied by a written instrument of transfer in form reasonably satisfactory to the Company duly executed, by the Holder duly authorized in writing.

SECTION 2.2 Loss, Theft, Destruction of Debenture. Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of this Debenture and, in the case of any such loss, theft or destruction, upon receipt of indemnity or security reasonably satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Debenture, the Company shall make, issue and deliver, in lieu of such lost, stolen, destroyed or mutilated Debenture, a new Debenture of like tenor and unpaid Principal Amount dated as of the date hereof (which shall accrue interest from the most recent Interest Payment Due Date on which an interest payment was made in full). This Debenture shall be held and owned upon the express condition that the provisions of this Section 2.2 are exclusive with respect to the replacement of a mutilated, destroyed, lost or stolen Debenture and shall preclude any and all other rights and remedies notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement of negotiable instruments or other securities without the surrender thereof.

SECTION 2.3 Who Deemed Absolute Owner. The Company may deem the Person in whose name this Debenture shall be registered upon the registry books of the Company to be, and may treat it as, the absolute owner of this Debenture (whether or not this Debenture shall be overdue) for the purpose of receiving payment of or on account of the Principal Amount of this Debenture, for the conversion of this Debenture and for all other purposes, and the Company shall not be affected by any notice to the contrary. All such payments and such conversions shall be valid and effectual to satisfy and discharge the liability upon this Debenture to the extent of the sum or sums so paid or the conversion or conversions so made.

SECTION 2.4 Repayment at Maturity. At the Maturity Date, the Company shall repay the outstanding Principal Amount of this Debenture in whole in cash, together with all accrued and unpaid interest thereon, in cash, to the Maturity Date.

ARTICLE 3 CONVERSION OF DEBENTURE

SECTION 3.1 Conversion; Conversion Price; Valuation Event. (a) At the option of the Holder, twelve percent (12%) of the face value of this Debenture may be converted per month (such amount to be cumulative) into Common Shares (calculated as to each such conversion to the nearest 1/100th of a share), at any time and from time to time on any Business Day, subject to compliance with Section 3.2. The number of Common Shares into which this Debenture may be converted is equal to (i) the Principal Amount of the Debenture being converted at the Conversion Date (plus, at the option of the Holder, any accrued and unpaid interest on the Debenture being converted through the Conversion Date) divided by (ii) the Conversion Price. In addition, the Company shall pay to the Holder on the Conversion Date, in cash, any accrued and unpaid interest on the Debenture being converted not included at the option of the Holder in clause (i) of the immediately preceding sentence. The "Conversion Price" shall be equal to the lesser of (y) \$1.00 or (x) eighty percent (80%) of the lowest Market Price during the thirty (20) trading days prior to Holder's election to convert (a "Discount Multiplier"); provided, that in the event that the Deadline has occurred and the Registration Statement has not been declared effective by the SEC upon Holder's election to convert, then the applicable Discount Multiplier shall decrease by two percent (2%) for each month or partial month occurring after the Holder's election to convert that the Registration Statement has not been declared effective by the SEC.

(b) Notwithstanding the provisions of Section 3.1(a), in the event the Holder elects to convert and the Company's Registration Statement has not been declared effective by the Deadline or, if the Registration Statement has theretofore been declared effective but is not thereafter effective, the following will also apply in addition to any damages incurred by the Holder as a result thereof:

(i) The Holder may demand repayment of one hundred and fifty percent (150%) of the entire Principal Amount of the Debenture, together with all accrued and unpaid interest thereon, in cash, at any time prior to the Company's Registration Statement being declared effective by the SEC or during the period that the Company's Registration Statement is not effective, such repayment to be made within three (3) business days of such demand. In the event that the Debenture is so accelerated, in addition to the repayment of the Principal Amount together with accrued interest as aforesaid, the Company shall immediately pay \$12,000 for each thirty (30) day period, or portion thereof, during which the Principal Amount, including interest thereon, remains unpaid, with the monthly payment amount to increase to \$20,000 after the first ninety (90) day period;

(ii) If the Holder does not elect to accelerate the Debenture, the Company shall immediately pay \$12,000 for each thirty (30) day period, or part thereof, that the Registration Statement is not effective, with the monthly payment amount to increase to \$20,000 after the first ninety (90) day period.

SECTION 3.2 Exercise of Conversion Privilege. (a) Conversion of this Debenture may be exercised on any Business Day by the Holder by telecopying an executed and completed Conversion Notice to the Company. Each date on which a Conversion Notice is telecopied to the Company in accordance with the provisions of this Section 3.2 shall constitute a Conversion Date. The Company shall convert this Debenture and issue the Common Stock Issued at Conversion in the manner provided below in this Section 3.2, and all voting and other rights associated with the beneficial ownership of the Common Stock Issued at Conversion shall vest with the Holder, effective as of the Conversion Date at the time specified in the Conversion Notice. The Conversion Notice also shall state the name or names (with addresses) of the persons who are to become the holders of the Common Stock Issued at Conversion in connection with such conversion. The Holder shall deliver this Debenture by express courier within thirty (30) days following the date on which the telecopied Conversion Notice has been transmitted to the Company. Upon surrender for conversion, this Debenture shall be accompanied by a proper assignment hereof to the Company or be endorsed in blank. As promptly as practicable after the receipt of the Conversion Notice as aforesaid, but in any event not more than three (3) Business Days after the Company's receipt of such Conversion Notice, the Company shall (i) issue the Common Stock Issued at Conversion in accordance with the provisions of this Article 3 and (ii) cause to be mailed for delivery by overnight courier to the Holder (x) a certificate or certificate(s) representing the number of Common Shares to which the Holder is entitled by virtue of such conversion, (y) cash, as provided in Section 3.3, in respect of any fraction of a Common Share deliverable upon such conversion and (z) cash or shares of Common Stock, as applicable, representing the amount of accrued and unpaid interest on this Debenture as of the Conversion Date. Such conversion shall be deemed to have been effected at the time at which the Conversion Notice indicates, and at such time the rights of the Holder of this Debenture, as such (except if and to the extent that any Principal Amount thereof remains unconverted), shall cease

and the Person and Persons in whose name or names the Common Stock Issued at Conversion shall be issuable shall be deemed to have become the holder or holders of record of the Common Shares represented thereby, and all voting and other rights associated with the beneficial ownership of such Common Shares shall at such time vest with such Person or Persons. The Conversion Notice shall constitute a contract between the Holder and the Company, whereby the Holder shall be deemed to subscribe for the number of Common Shares which it will be entitled to receive upon such conversion and, in payment and satisfaction of such subscription (and for any cash adjustment to which it is entitled pursuant to Section 3.4), to surrender this Debenture and to release the Company from all liability thereon (except if and to the extent that any Principal Amount thereof remains unconverted). No cash payment aggregating less than \$1.00 shall be required to be given unless specifically requested by the Holder.

(b) If, at any time after the date of this Debenture, (i) the Company challenges, disputes or denies the right of the Holder hereof to effect the conversion of this Debenture into Common Shares or otherwise dishonors or rejects any Conversion Notice delivered in accordance with this Section 3.2 or (ii) any third party who is not and has never been an Affiliate of the Holder commences any lawsuit or legal proceeding or otherwise asserts any claim before any court or public or governmental authority which seeks to challenge, deny, enjoin, limit, modify, delay or dispute the right of the Holder hereof to effect the conversion of this Debenture into Common Shares, then the Holder shall have the right, by written notice to the Company, to require the Company to promptly redeem this Debenture for cash at one hundred and fifty (150%) of the Principal Amount thereof, together with all accrued and unpaid interest thereon to the date of redemption. Under any of the circumstances set forth above, the Company shall be responsible for the payment of all costs and expenses of the Holder, including reasonable legal fees and expenses, as and when incurred in defending itself in any such action or pursuing its rights hereunder (in addition to any other rights of the Holder).

(c) The Holder shall be entitled to exercise its conversion privilege notwithstanding the commencement of any case under the Bankruptcy Code. In the event the Company is a debtor under the Bankruptcy Code, the Company hereby waives to the fullest extent permitted any rights to relief it may have under 11 U.S.C. ss. 362 in respect of the Holder's conversion privilege. The Company hereby waives to the fullest extent permitted any rights to relief it may have under 11 U.S.C. ss. 362 in respect of the conversion of this Debenture. The Company agrees, without cost or expense to the Holder, to take or consent to any and all action necessary to effectuate relief under 11 U.S.C. ss. 362.

SECTION 3.3 Fractional Shares. No fractional Common Shares or scrip representing fractional Common Shares shall be delivered upon conversion of this Debenture. Instead of any fractional Common Shares which otherwise would be delivered upon conversion of this Debenture, the Company shall pay a cash adjustment in respect of such fraction in an amount equal to the same fraction multiplied by the Current Market Price on the Conversion Date. No cash payment of less than \$1.00 shall be required to be given unless specifically requested by the Holder.

SECTION 3.4 Adjustments. The Conversion Price and the number of shares deliverable upon conversion of this Debenture are subject to adjustment from time to time as follows:

(i) Reclassification, Etc. In case the Company shall reorganize its capital, reclassify its capital stock, consolidate or merge with or into another Person (where the Company is not the survivor or where there is a change in or distribution with respect to the Common Stock of the Company), sell, convey, transfer or otherwise dispose of all or substantially all its property, assets or business to another Person, or effectuate a transaction or series of related transactions in which more than fifty percent (50%) of the voting power of the Company is disposed of (each, a "Fundamental Corporate Change") and, pursuant to the terms of such Fundamental Corporate Change, shares of common stock of the successor or acquiring corporation, or any cash, shares of stock or other securities or property of any nature whatsoever (including warrants or other subscription or purchase rights) in addition to or in lieu of common stock of the successor or acquiring corporation ("Other Property") are to be received by or distributed to the holders of Common Stock of the Company, then the Holder of this Debenture shall have the right thereafter, at its sole option, to (x) require the Company to prepay this Debenture for cash at one hundred and fifty percent (150%) of the Principal Amount thereof, together with all accrued and unpaid interest thereon to the date of prepayment, (y) receive the number of shares of common stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and Other Property as is receivable upon or as a result of such Fundamental Corporate Change by a holder of the number of shares of Common Stock into which such the outstanding portion of this Debenture may be converted at the Conversion Price applicable immediately prior to such Fundamental Corporate Change or (z) require the Company, or such successor, resulting or purchasing corporation, as the case may be, to, without benefit of any additional consideration therefor, execute and deliver to the Holder a debenture with substantial identical rights, privileges, powers, restrictions and other terms as this Debenture in an amount equal to the amount outstanding under this Debenture immediately prior to such Fundamental Corporate Change. For purposes hereof, "common stock of the successor or acquiring corporation" shall include stock of such corporation of any class which is not preferred as to dividends or assets over any other class of stock of such corporation and which is not subject to prepayment and shall also include any evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable for any such stock, either immediately or upon the arrival of a specified date or the happening of a specified event and any warrants or other rights to subscribe for or purchase any such stock. The foregoing provisions shall similarly apply to successive Fundamental Corporate Changes.

SECTION 3.5 Certain Conversion Limits.

Notwithstanding anything herein to the contrary, if and to the extent that, on any date (the "Section 16 Determination Date"), the holding by the Holder of this Debenture would result in the Holder's becoming subject to the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended, by virtue of being deemed the "beneficial owner" of more than ten percent (10%) of the then Outstanding shares of Common Stock, then the Holder shall not have the right, and the Company shall not have the obligation, to convert any portion of this Debenture (the "Section 16 Prepayment Portion") as shall cause such Holder to be deemed the beneficial owner of more than ten percent (10%) of the then Outstanding shares of Common Stock during the period ending sixty (60) days after the Section 16 Determination Date. If any court of competent jurisdiction shall determine that the foregoing limitation is ineffective to prevent a Holder from being deemed the beneficial owner of more than ten percent (10%) of the then Outstanding shares of Common Stock for the purposes of such Section 16(b), then the Company shall prepay the Section 16 Prepayment Portion. Upon such determination by a court of competent jurisdiction, the Holder shall have no interest in or rights under such Section 16 Prepayment Portion. Any and all interest paid on or prior to the date of such determination shall be deemed interest paid on the remaining portion of this Debenture held by the Holder. Such prepayment shall be for cash at a prepayment price of one hundred and fifty percent (150%) of the Principal Amount thereof, together with all accrued and unpaid interest thereon to the date of prepayment.

SECTION 3.6 Surrender of Debentures. Upon any redemption of this Debenture pursuant to Sections 3.2, 3.5 or 6.2, or upon maturity pursuant to Section 2.4, the Holder shall either deliver this Debenture by hand to the Company at its principal executive offices or surrender the same to the Company at such address by nationally recognized overnight courier. Payment of the redemption price or the amount due on maturity specified in Section 2.4, shall be made by the Company to the Holder against receipt of this Debenture (as provided in this Section 3.5) by wire transfer of immediately available funds to such account(s) as the Holder shall specify by written notice to the Company. If payment of such redemption price is not made in full by the redemption date, or the amount due on maturity is not paid in full by the Maturity Date, the Holder shall again have the right to convert this Debenture as provided in Article 3 hereof or to declare an Event of Default.

ARTICLE 4
STATUS; RESTRICTIONS ON TRANSFER

SECTION 4.1 Status of Debenture. This Debenture is an unsecured obligation of the Company, and constitutes a legal, valid and binding obligation of the Company, enforceable in accordance with its terms subject, as to enforceability, to general principles of equity and to principles of bankruptcy, insolvency, reorganization and other similar laws of general applicability relating to or affecting creditors' rights and remedies generally.

SECTION 4.2 Restrictions on Transfer. This Debenture, and any Common Shares deliverable upon the conversion hereof, have not been registered under the Securities Act. The Holder by accepting this Debenture agrees that this Debenture and the shares of Common Stock to be acquired as interest on and upon conversion of this Debenture may not be assigned or otherwise transferred unless and until (i) the Company has received the opinion of counsel for the Holder that this Debenture or such shares may be sold pursuant to an exemption from registration under the Securities Act or (ii) a registration statement relating to this Debenture or such shares has been filed by the Company and declared effective by the SEC.

Each certificate for shares of Common Stock deliverable hereunder shall bear a legend as follows unless and until such securities have been sold pursuant to an effective registration statement under the Securities Act:

"The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended (the "Securities Act"). The securities may not be offered for sale, sold or otherwise transferred except (i) pursuant to an effective registration statement under the Securities Act or

(ii) pursuant to an exemption from registration under the Securities Act in respect of which the issuer of this certificate has received an opinion of counsel satisfactory to the issuer of this certificate to such effect. Copies of the agreement covering both the purchase of the securities and restrictions on their transfer may be obtained at no cost by written request made by the holder of record of this certificate to the Secretary of the issuer of this certificate at the principal executive offices of the issuer of this certificate."

ARTICLE 5
COVENANTS

SECTION 5.1 Conversion. The Company shall, not later than five (5) Business Days after the Company's receipt of a Conversion Notice, issue and deliver to the Holder the requisite shares of Common Stock Issued at Conversion.

SECTION 5.2 Notice of Default. If any one or more events occur which constitute or which, with notice, lapse of time, or both, would constitute an Event of Default, the Company shall forthwith give notice to the Holder, specifying the nature and status of the Event of Default or such other event(s), as the case may be.

SECTION 5.3 Payment of Obligations. So long as this Debenture shall be outstanding, the Company shall pay, extend, or discharge at or before maturity, all its respective material obligations and liabilities, including, without limitation, tax liabilities, except where the same may be contested in good faith by appropriate proceedings.

SECTION 5.4 Compliance with Laws. So long as this Debenture shall be outstanding, the Company shall comply with all applicable laws, ordinances, rules, regulations and requirements of governmental authorities, except for such noncompliance which would not have a material adverse effect on the business, properties, prospects, condition (financial or otherwise) or results of operations of the Company and the Subsidiaries.

SECTION 5.5 Inspection of Property, Books and Records. So long as this Debenture shall be outstanding, the Company shall keep proper books of record and account in which full, true and correct entries shall be made of all material dealings and transactions in relation to its business and activities and shall permit representatives of the Holder at the Holder's expense to visit and inspect any of its respective properties, to examine and make abstracts from any of its respective books and records, not reasonably deemed confidential by the Company, and to discuss its respective affairs, finances and accounts with its respective officers and independent public accountants, all at such reasonable times and as often as may reasonably be desired.

ARTICLE 6
REMEDIES

SECTION 6.1 Events of Default. "Event of Default" wherever used herein means any one of the following events:

(i) the Company shall default in the payment of principal of or interest on this Debenture as and when the same shall be due and payable and, in the case of an interest payment default, such default shall continue for five (5) Business Days after the date such interest payment was due, or the Company shall fail to perform or observe in any other covenant, agreement, term, provision, undertaking or commitment under this Debenture, the Warrants, the Securities Purchase Agreement or the Registration Rights Agreement and such default shall continue for a period of ten (10) Business Days after the delivery to the Company of written notice that the Company is in default hereunder or thereunder;

(ii) any of the representations or warranties made by the Company herein, in the Securities Purchase Agreement, the Registration Rights Agreement or in any certificate or financial or other written statements heretofore or hereafter furnished by or on behalf of the Company in connection with the execution and delivery of this Debenture, the Warrants, the Securities Purchase Agreement or the Registration Rights Agreement shall be false or misleading in a material respect on the Closing Date;

(iii) under the laws of any jurisdiction not otherwise covered by clauses (iv) and (v) below, the Company or any Subsidiary (A) becomes insolvent or generally not able to pay its debts as they become due, (B) admits in writing its inability to pay its debts generally or makes a general assignment for the benefit of creditors, (C) institutes or has instituted against it any proceeding seeking (x) to adjudicate it a bankrupt or insolvent, (y) liquidation, winding-up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors including any plan of compromise or arrangement or other corporate proceeding involving or affecting its creditors or (z) the entry of an order for relief or the appointment of a receiver, trustee or other similar person for it or for any substantial part of its properties and assets, and in the case of any such official proceeding instituted against it (but not instituted by it), either the proceeding remains undismitted or unstayed for a period of sixty (60) calendar days, or any of the actions sought in such proceeding (including the entry of an order for relief against it or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its properties and assets) occurs or (D) takes any corporate action to authorize any of the above actions;

(iv) the entry of a decree or order by a court having jurisdiction in the premises adjudging the Company or any Subsidiary a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under the Bankruptcy Code or any other applicable Federal or state law, or appointing a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Company or of any substantial part of its property, or ordering the winding-up or liquidation of its affairs, and any such decree or order continues and is unstayed and in effect for a period of sixty (60) calendar days;

(v) the institution by the Company or any Subsidiary of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Bankruptcy Code or any other applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as and when they become due, or the taking of corporate action by the Company in furtherance of any such action;

(vi) a final judgment or final judgments for the payment of money shall have been entered by any court or courts of competent jurisdiction against the Company and remains undischarged for a period (during which execution shall be effectively stayed) of thirty (30) days, provided that the aggregate amount of all such judgments at any time outstanding (to the extent not paid or to be paid, as evidenced by a written communication to that effect from the applicable insurer, by insurance) exceeds One Hundred Thousand Dollars (\$100,000);

(vii) it becomes unlawful for the Company to perform or comply with its obligations under this Debenture, the Warrant, the Securities Purchase Agreement or the Registration Rights Agreement in any respect;

(viii) the Common Shares shall be delisted from the NASDAQ OTCBB (the "Trading Market" or, to the extent the Company becomes eligible to list its Common Stock on any other national security exchange or quotation system, upon official notice of listing on any such exchange or system, as the case may be, it shall be the "Trading Market") or suspended from trading on the Trading Market, and shall not be reinstated, relisted or such suspension lifted, as the case may be, within five (5) days or;

(ix) the Company shall default (giving effect to any applicable grace period) in the payment of principal or interest as and when the same shall become due and payable, under any indebtedness, individually or in the aggregate, of more than One Hundred Thousand Dollars (\$100,000);

SECTION 6.2 Acceleration of Maturity; Rescission and Annulment. If an Event of Default occurs and is continuing, then and in every such case the Holder may, by a notice in writing to the Company, rescind any outstanding Conversion Notice and declare that all amounts owing or otherwise outstanding under this Debenture are immediately due and payable and upon any such declaration this Debenture shall become immediately due and payable in cash at a price of one hundred and fifty percent (150%) of the Principal Amount thereof, together with all accrued and unpaid interest thereon to the date of payment; provided, however, in the case of any Event of Default described in clauses (iii), (iv), (v) or (vii) of Section 6.1, such amount automatically shall become immediately due and payable without the necessity of any notice or declaration as aforesaid.

SECTION 6.3 Default Interest Rate. (a) If any portion of the principal of or interest on this Debenture shall not be paid when due (whether at the stated maturity, by acceleration or otherwise) such principal of and interest on the Debenture which is due and owing but not paid shall, without limiting the Holder's rights under this Debenture, bear interest at the Default Interest Rate until paid in full.

(b) Notwithstanding anything herein to the contrary, if at any time the applicable interest rate as provided for herein shall exceed the maximum lawful rate which may be contracted for, charged, taken or received by the Holder in accordance with any applicable law (the "Maximum Rate"), the rate of interest applicable to this Debenture shall be limited to the Maximum Rate. To the greatest extent permitted under applicable law, USA TECHNOLOGIES hereby waives and agrees not to allege or claim that any provisions of this Note could give rise to or result in any actual or potential violation of any applicable usury laws.

SECTION 6.4 Remedies Not Waived. No course of dealing between the Company and the Holder or any delay in exercising any rights hereunder shall operate as a waiver by the Holder.

ARTICLE 7
MISCELLANEOUS

SECTION 7.1 Notice of Certain Events. In the case of the occurrence of any event described in Section 3.4 of this Debenture, the Company shall cause to be mailed to the Holder of this Debenture at its last address as it appears in the Company's security registry, at least twenty (20) days prior to the applicable record, effective or expiration date hereinafter specified (or, if such twenty (20) days' notice is not possible, at the earliest possible date prior to any such record, effective or expiration date), a notice thereof, including, if applicable, a statement of (y) the date on which a record is to be taken for the purpose of such dividend, distribution, issuance or granting of rights, options or warrants, or if a record is not to be taken, the date as of which the holders of record of Common Stock to be entitled to such dividend, distribution, issuance or granting of rights, options or warrants are to be determined or (z) the date on which such reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding-up is expected to become effective, and the date as of which it is expected that holders of record of Common Stock will be entitled to exchange their shares for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale transfer, dissolution, liquidation or winding-up.

SECTION 7.2 Register. The Company shall keep at its principal office a register in which the Company shall provide for the registration of this Debenture. Upon any transfer of this Debenture in accordance with Articles 2 and 4 hereof, the Company shall register such transfer on the Debenture register.

SECTION 7.3 Withholding. To the extent required by applicable law, the Company may withhold amounts for or on account of any taxes imposed or levied by or on behalf of any taxing authority in the United States having jurisdiction over the Company from any payments made pursuant to this Debenture.

SECTION 7.4 Transmittal of Notices. Except as may be otherwise provided herein, any notice or other communication or delivery required or permitted hereunder shall be in writing and shall be delivered personally, or sent by telecopier machine or by a nationally recognized overnight courier service, and shall be deemed given when so delivered personally, or by telecopier machine or overnight courier service as follows:

SECTION 7.5 Attorneys' Fees. Should any party hereto employ an attorney for the purpose of enforcing or construing this Agreement, or any judgment based on this Agreement, in any legal proceeding whatsoever, including insolvency, bankruptcy, arbitration, declaratory relief or other litigation, the prevailing party shall be entitled to receive from the other party or parties thereto reimbursement for all reasonable attorneys' fees and all reasonable costs, including but not limited to service of process, filing fees, court and court reporter costs, investigative costs, expert witness fees, and the cost of any bonds, whether taxable or not, and that such reimbursement shall be included in any judgment or final order issued in that proceeding. The "prevailing party" means the party determined by the court to most nearly prevail and not necessarily the one in whose favor a judgment is rendered.

(1) if to the Company, to:

USA TECHNOLOGIES, Inc.
200 Plant Ave.
Wayne, PA 19087
Attention: George Jensen
Telecopier:(610)989-0340
Telephone:(949)989-0344

(2) if to the Holder, to:

La Jolla Cove Investors, Inc.
Suite 200
7817 Herschel Avenue
La Jolla, California 92037
Attention: Travis Huff
Telecopier: (858) 551-0987
Telephone: (858) 551-8703

with a copy to:

Loeb & Loeb LLP
Suite 2200
10100 Santa Monica Boulevard
Los Angeles, California 90067
Attention: David Ficksman, Esq.
Telecopier: (310) 282-2192
Telephone: (310) 282-2000

Each of the Holder or the Company may change the foregoing address by notice given pursuant to this Section 7.4.

SECTION 7.5 Governing Law. THIS DEBENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA (WITHOUT GIVING EFFECT TO CONFLICTS OF LAWS PRINCIPLES). WITH RESPECT TO ANY SUIT, ACTION OR PROCEEDINGS RELATING TO THIS DEBENTURE, THE COMPANY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF CALIFORNIA AND THE UNITED STATES DISTRICT COURT LOCATED IN THE CITY OF SAN DIEGO AND HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. SUBJECT TO APPLICABLE LAW, THE COMPANY AGREES THAT FINAL JUDGMENT AGAINST IT IN ANY LEGAL ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS DEBENTURE SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN ANY OTHER JURISDICTION WITHIN OR OUTSIDE THE UNITED STATES BY SUIT ON THE JUDGMENT, A CERTIFIED COPY OF WHICH JUDGMENT SHALL BE CONCLUSIVE EVIDENCE THEREOF AND THE AMOUNT OF ITS INDEBTEDNESS, OR BY SUCH OTHER MEANS PROVIDED BY LAW.

SECTION 7.6 Headings. The headings of the Articles and Sections of this Debenture are inserted for convenience only and do not constitute a part of this Debenture.

SECTION 7.7 Payment Dates. Whenever any payment hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

SECTION 7.8 Binding Effect. Each Holder by accepting this Debenture agrees to be bound by and comply with the terms and provisions of this Debenture.

SECTION 7.9 No Stockholder Rights. Except as otherwise provided herein, this Debenture shall not entitle the Holder to any of the rights of a stockholder of the Company, including, without limitation, the right to vote, to receive dividends and other distributions, or to receive any notice of, or to attend, meetings of stockholders or any other proceedings of the Company, unless and to the extent converted into shares of Common Stock in accordance with the terms hereof.

IN WITNESS WHEREOF, the Company has caused this Debenture to be signed by its duly authorized officer on the date of this Debenture.

USA TECHNOLOGIES, Inc. a Pennsylvania corporation

By: /s/ George R. Jensen, Jr.

Name George R. Jensen, Jr.
Title Chairman & CEO

EXHIBIT A
[FORM OF CONVERSION NOTICE]

TO: USA TECHNOLOGIES, Inc.
200 Plant Ave.
Wayne, PA 19087
Attention: George Jensen

The undersigned owner of this 9 3/4 % Convertible Debenture due July ____, 2003 (the "Debenture") issued by USA TECHNOLOGIES, Inc. (the "Company") hereby irrevocably exercises its option to convert \$_____ Principal Amount of the Debenture [and accrued and unpaid interest thereon to the date of this Notice] into shares of Common Stock in accordance with the terms of the Debenture. The undersigned hereby instructs the Company to convert the portion of the Debenture specified above into shares of Common Stock Issued at Conversion in accordance with the provisions of Article 3 of the Debenture. The undersigned directs that the Common Stock and certificates therefor deliverable upon conversion, the Debenture reissued in the Principal Amount not being surrendered for conversion hereby, [the check or shares of Common Stock in payment of the accrued and unpaid interest thereon to the date of this Notice,] together with any check in payment for fractional Common Stock, be registered in the name of and/or delivered to the undersigned unless a different name has been indicated below. All capitalized terms used and not defined herein have the respective meanings assigned to them in the Debenture. The conversion pursuant hereto shall be deemed to have been effected at the date and time specified below, and at such time the rights of the undersigned as a Holder of the Principal Amount of the Debenture set forth above shall cease and the Person or Persons in whose name or names the Common Stock Issued at Conversion shall be registered shall be deemed to have become the holder or holders of record of the Common Shares represented thereby and all voting and other rights associated with the beneficial ownership of such Common Shares shall at such time vest with such Person or Persons.

Date and time:

Signature

Fill in for registration of Debenture:
Please print name and address
(including ZIP code number):

Warrants

THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT FOR DISTRIBUTION, AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. NEITHER THE WARRANT NOR THE SHARES MAY BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS THEREOF (INCLUDING RULE 144) OR AN OPINION OF COUSSEL REASONABLY SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED.

WARRANT TO PURCHASE COMMON STOCK

Issuer: USA Technologies, Inc.
Class of Stock: Common
Issue Date: July____, 2001

THIS WARRANT TO PURCHASE COMMON STOCK is being issued pursuant to that certain Letter Agreement dated as of the date hereof (the "Letter Agreement") between USA Technologies, Inc., a Pennsylvania corporation (the "Company") and La Jolla Cove Investors, Inc., a California corporation ("Holder"). Pursuant to the Letter Agreement, the Company hereby grants to Holder the right to purchase 500,000 shares of the company's Common Stock (the "Warrant Shares"). At the time of the issuance of this Warrant, the Holder has wired to USA Technologies the sum of \$50,000 representing the premium to be paid for the warrants (the "Premium"). This warrant shall expire and Holder shall no longer be able to purchase the Warrant Shares on the one-year anniversary on which the Registration Statement is first declared effective.

ARTICLE 1

EXERCISE

1.1 Method of Exercise. Holder may exercise this warrant by delivering a duly executed Notice of Exercise in substantially the form attached as Appendix 1 to the principal office of the Company, along with a check payable to the Company for the aggregate Exercise Price for the Warrant Shares being purchased.

1.2 Delivery of Certificate and New Warrant Delivery of Certificate and New Warrant. Upon the exercise by Holder of this warrant, in part or in full, the Company shall deliver within five days to Holder a stock certificate representing the Warrant Shares acquired and, if this warrant has not been fully exercised and has not expired, a new warrant substantially in the form of this warrant representing the right to acquire the portion of the Warrant Shares not so acquired.

1.3 Replacement of Warrants. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of mutilation, or surrender and cancellation of this warrant, the Company at its expense shall execute and deliver, in lieu of this warrant, a new warrant of like tenor.

1.4 Exercise Price. The Exercise Price for the Warrant Shares shall be the lesser of \$1.00 or 80% of the lowest closing bid price of the Common Stock during the 20 trading days prior to exercise. Upon the exercise of the Warrant Shares, the Exercise Price shall be further reduced pro rata to permit the Holder to recapture the Premium (unless the Premium already has been deducted through a reduction of any financing proceeds provided prior to exercise of the Warrants). Except to the extent applied towards the exercise of the Warrant, the Premium shall be non-refundable.

ARTICLE 2

ADJUSTMENT TO THE WARRANT SHARES

The number of Warrant Shares purchasable upon the exercise of this warrant and the Exercise Price shall be subject to adjustment from time to time upon the occurrence of certain events, as follows:

2.1 Reclassification. In case of any reclassification or change of outstanding securities of the class issuable upon exercise of this warrant then, and in any such case, the Holder, upon the exercise hereof at any time after the consummation of such reclassification or change, shall be entitled to receive in lieu of each Warrant Share theretofore issuable upon exercise of this warrant, the kind and amount of shares of stock, other securities, money and/or property received upon such reclassification or change by a holder of one share. The provisions of this Section 2.1 shall similarly apply to successive reclassifications or changes.

2.2 Subdivision or Combination of Shares. If the Company at any time while this warrant remains outstanding and unexpired shall subdivide or combine its shares, the Exercise Price shall be proportionately decreased in the case of a subdivision or increase in the case of a combination.

2.3 Stock Dividends. If the Company, at any time while this warrant is outstanding shall pay a dividend with respect to its shares payable in shares of its stock, or make any other distributions of shares with respect to shares of its stock (except any distribution provided for in Section 2.1 and Section 2.2 above), then the Exercise Price shall be adjusted, effective from and after the date of determination of shareholders entitled to receive such dividend or distribution, to that price determined by multiplying the Exercise Price in effect immediately prior to such date of determination by a fraction, (a) the numerator of which shall be the total number of shares outstanding immediately prior to such dividend or distribution, and (b) the denominator of which shall be the total number of shares outstanding immediately after such dividend or distribution.

2.4 Non-Cash Dividends. If the Company at any time while this warrant is outstanding shall pay a dividend with respect to shares payable in securities other than shares or other non-cash property, or make any other distribution of such securities or property with respect to shares (except any distribution specifically provided for in Section 2.1 and Section 2.2 above), then this warrant shall represent the right to acquire upon exercise of this warrant such securities or property which a holder of shares would have been entitled to receive upon such dividend or distribution, without the payment by Holder of any additional consideration for such securities or property.

2.5 Effect of Reorganization and Asset Sales. If any (i) reorganization or reclassification of the Common Stock (ii) consolidation or merger of the Company with or into another corporation, or (iii) sale of all or substantially all of the Company's operating assets to another corporation followed by a liquidation of the Company (any such transaction shall be referred to herein as an "Event"), is effected in such a way that holder s of common Stock are entitled to receive securities and/or assets as a result of their Common Stock ownership, Holder, upon exercise of this warrant, shall be entitled to receive such shares of stock, securities or assets which Holder would have received had it fully exercised this warrant on or prior the record date for such Event. The Company shall not merge into or consolidate with another corporation or sell all of its assets to another corporation for a consideration consisting primarily of securities of such corporation, unless the successor or acquiring corporation, as the case may be, shall expressly assume the due and punctual observance and performance of each and every covenant and condition of this warrant to be performed or observed by the Company and all of the obligations and liabilities hereunder, subject to such modification as shall be necessary to provide for adjustments which shall be as nearly equivalent as practicable to the adjustments provided for in this Section 2. The foregoing provisions shall similarly apply to successive mergers, consolidations or sales of assets.

2.6 Adjustment of Number of Shares. Upon each adjustment in the Exercise Price, the number of Warrant Shares shall be adjusted, to the nearest whole share, to the product obtained by multiplying the number of Warrant Shares purchasable immediately prior to such adjustment by a fraction (a) the numerator of which shall be the Exercise Price prior to the adjustment and (b) the denominator of which shall be the Exercise Price immediately thereafter.

2.7 No Impairment. The Company shall not, by amendment of its charter documents or through a reorganization, transfer of assets, consolidation, merger, dissolution, issue, or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed under this warrant by the Company, but shall at all times in good faith assist in carrying out all of the provisions of this warrant and in taking all such action as may be reasonably necessary or appropriate to protect Holder's rights hereunder against impairment. If the Company takes any action affecting its common Stock other than as described above that adversely affects Holder's rights under this warrant, the Exercise Price shall be adjusted downward and the number of Warrant Shares issuable upon exercise of this warrant shall be adjusted upward in such a manner that the aggregate Exercise Price of this Warrant is unchanged.

2.8 Fractional Shares. No fractional Warrant Shares shall be issuable upon the exercise of this warrant, and the number of Warrant Shares to be issued shall be rounded down to the nearest whole Share.

2.9 Certificate as to Adjustments. Upon any adjustment of the Exercise Price, the Company, at its expense, shall compute such adjustment and furnish Holder with a certificate of its Chief Financial Officer setting forth such adjustment and the facts upon which such adjustment is based. The Company shall, upon written request, furnish Holder a certificate setting forth the Exercise Price in effect upon the date thereof and the series of adjustments leading to such Exercise Price.

2.10 No Rights of Shareholders. This warrant does not entitle Holder to any voting rights or any other rights as a shareholder of the Company prior to the exercise of Holder's right to purchase Warrant Shares as provide herein.

ARTICLE 3

REPRESENTATIONS AND COVENANTS OF THE COMPANY

3.1 Representations and Warranties. The Company hereby represents and warrants to Holder that all Warrant Shares which may be issued upon the exercise of the purchase right represented by this warrant, shall, upon issuance, be duly authorized, validly issued, fully paid and nonassessable, and free of any liens and encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws.

3.2 Notice of Certain Events. If the Company proposes at any time (a) to declare any dividend or distribution upon its Common Stock, whether in cash, property, stock, or other securities and whether or not a regular cash dividend; (b) to offer for subscription pro rata to the holders of any class or series of its stock any additional shares of stock of any class or series or other rights; (c) to effect any reclassification or recapitalization of Common Stock; (d) to merge or consolidate with or into any other corporation, or sell, lease, license, or convey all or substantially all of its assets, or to liquidate, dissolve or wind up; or (e) offer holders of registration rights the opportunity to participate in an underwritten public offering of the Company's securities for cash, then, in connection with each such event, the Company shall give Holder (1) at least 20 days prior written notice of the date on which a record will be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of Common Stock will be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (c) and (d) above; (2) in the case of the matters referred to in (c) and (d) above at least 20 days prior written notice of the date when the same will take place (and specifying the date on which the holders of Common Stock will be entitled to exchange their Common Stock for securities or other property deliverable upon the occurrence of such event); and (3) in the case of the matter referred to in (e) above, the same notice as is given to the holders of such registration rights.

3.3 Information Rights. So long as Holder holds this warrant, the Company shall deliver to Holder promptly after mailing, copies of all notices or other written communications to the shareholders of the Company.

3.4 Reservation of Warrant Shares. The Company has reserved and will keep available, out of the authorized and unissued shares of Common Stock, the full number of shares sufficient to provide for the exercise of the rights of purchase represented by this warrant.

3.5 Registration Rights. Holder shall have the Registration Rights set forth in Section 5 below as well as piggy-back Registration Rights.

ARTICLE 4

REPRESENTATIONS AND COVENANTS OF THE HOLDER

4.1 Investment Purpose. Except as set forth in Article 5, the Warrant Shares will be acquired for investment and not with a view to the sale or distribution of any part thereof, and Holder has no present intention of selling or engaging in any public distribution of the same except pursuant to a registration or exemption from registration.

4.2 Financial Risk. Holder has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment and has the ability to bear the economic risks of its investment.

4.3 Accredited Investor. Holder is an "accredited investor," as such term is defined in Regulation D promulgated pursuant to the Securities Act of 1933, as amended.

ARTICLE 5

REGISTRATION RIGHTS

5.1 Definitions.

(A) As used in this Agreement, the following terms shall have the following meanings:

(1) "Affiliate" of any specified Person means any other Person who directly, or indirectly through one or more intermediaries, is in control of, is controlled by, or is under common control with, such specified Person. For purposes of this definition, control of a Person means the power, directly or indirectly, to direct or cause the direction of the management and policies of such Person whether by contract, securities, ownership or otherwise; and the terms "controlling" and "controlled" have the respective meanings correlative to the foregoing.

(2) "Commission" means the Securities and Exchange Commission.

(3) "Person" means any individual, partnership, corporation, limited liability company, joint stock company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

(3) "Prospectus" means the prospectus (including, without limitation, any preliminary prospectus and any final prospectus filed pursuant to Rule 424(b) under the Securities Act, including any prospectus that discloses

information previously omitted from a prospectus filed as part of an effective registration statement in reliance on Rule 430A under the Securities Act) included in the Registration Statement, as amended or supplemented by any prospectus supplement with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement and by all other amendments and supplements to such prospectus, including all material incorporated by reference in such prospectus and all documents filed after the date of such prospectus by the Company under the Exchange Act and incorporated by reference therein.

(4) "Public Offering" means an offer registered with the Commission and the appropriate state securities commissions by the Company of its Common Stock and made pursuant to the Securities Act.

(5) "Registrable Securities" means the Common Stock issued (i) upon exercise of the warrants, and (ii) in connection with any distribution, recapitalization, stock-split, stock adjustment or reorganization of the Company; provided, however, a share of Common Stock shall cease to be a Registrable Security for purposes of this Agreement when it no longer is a Restricted Security.

(6) "Registration Statement" means a registration statement of the Company filed on an appropriate form under the Securities Act providing for the registration of, and the sale on a continuous or delayed basis by the holders of, all of the Registrable Securities pursuant to Rule 415 under the Securities Act, including the Prospectus contained therein and forming a part thereof, any amendments to such registration statement and supplements to such Prospectus, and all exhibits to and other material incorporated by reference in such registration statement and Prospectus.

(7) "Restricted Security" means any share of Common Stock issued upon exercise of warrants except any such share that (i) has been registered pursuant to an effective registration statement under the Securities Act and sold in a manner contemplated by the prospectus included in such registration statement, (ii) has been transferred in compliance with the resale provisions of Rule 144 under the Securities Act (or any successor provision thereto) or is transferable pursuant to paragraph (k) of Rule 144 under the Securities Act (or any successor provision thereto) or (iii) otherwise has been transferred and a new share of Common Stock not subject to transfer restrictions under the Securities Act has been delivered by or on behalf of the Company.

(8) "Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder, or any similar successor statute.

5.2 Registration.

(A) Filing and Effectiveness of Registration Statement. The Company shall prepare and file with the Commission as soon as practicable a Registration Statement relating to the offer and sale of the Registrable Securities and shall use its best efforts to cause the Commission to declare such Registration Statement effective under the Securities Act as promptly as practicable but in no event later than one hundred and twenty days (120 days from

the date hereof (the "Deadline"). The Company shall promptly (and, in any event, no more than 24 hours after it receives comments from the Commission), notify the Holder when and if it receives any comments from the Commission on the Registration Statement and promptly forward a copy of such comments, if they are in writing, to Holder. The Company shall notify Holder by written notice that such Registration Statement has been declared effective by the Commission within 24 hours of such declaration by the Commission. In the event that the Registration Statement is not declared effective by the Deadline, or if after the Registration Statement is declared effective, such Registration Statement is thereafter no longer effective, then the Company shall pay to Holder, in addition to any damages incurred by the Holder as a result thereof, \$5,000 for each 30 day period or portion thereof for the first 60 days during which the Registration Statement has not been declared effective and \$7,500 for each 3 day period or portion thereof after the 60th day it has not been declared effective.

5.3 Obligations of the Company

In connection with the registration of the Registrable Securities, the Company shall:

(A) Promptly (i) prepare and file with the Commission such amendments to the Registration Statement continuously effective and in compliance with the provisions of the Securities Act applicable thereto so as to permit the Prospectus forming part thereof to be current and useable by Holder for resale of the Registrable Securities for a period of five (5) years from the date on which the Registration Statement is first declared effective by the Commission (the "Effective Time") or such shorter period that will terminate when all the Registrable Securities covered by the Registration Statement have been sold pursuant thereto in accordance with the plan of distribution provided in the Prospectus, transferred pursuant to Rule 144 under the Securities Act or otherwise transferred in a manner that results in the delivery of new securities not subject to transfer restrictions under the Securities Act or until such time as the Warrant Shares are eligible for sale by the Holder under Rule 144 (the "Registration Period") and (ii) take all lawful action such that each of (A) the Registration Statement and any amendment thereto does not, when it becomes effective, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, not misleading and (B) the Prospectus forming part of the Registration Statement, and any amendment or supplement thereto, does not at any time during the Registration Statement, and any amendment or supplement thereto, does not at any time during the Registration Period include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(B) (i) Prior to the filing with the Commission of any Registration Statement (including any amendments thereto) and the distribution or delivery of any Prospectus (including any supplements thereto), provide draft copies thereof to Holder and reflect in such documents all such comments as Holder (and its counsel) reasonably may propose and (ii) furnish to Holder whose Registrable Securities are included in the Registration Statement and its legal counsel identified to the Company, (A) promptly after the same is prepared and publicly distributed, filed with the Commission, or received by the Company, one copy of the Registration Statement, each Prospectus, and each amendment or supplement thereto and (B) such number of copies of the Prospects and all amendments and

supplements thereto and such other documents, as Holder may reasonably request in order to facilitate the disposition of the Registrable Securities owned by Holder;

(C) (i) Register or qualify the Registrable Securities covered by the Registration Statement under such securities or "blue sky" laws of such jurisdictions as Holder reasonably request, (ii) prepare and file in such jurisdictions such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof at all times during the Registration Period, (iii) take all such other lawful actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period and (iv) take all such other lawful actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions.

(D) As promptly as practicable after becoming aware of such event notify Holder of the occurrence of any event, as a result of which the Prospectus included in the Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and promptly prepare an amendment to the Registration Statement and supplement to the Prospectus to correct such untrue statement or omission, and deliver a number of copies of such supplement and amendment to Holder may reasonably request;

(E) As promptly as practicable after becoming aware of such event, notify Holder of the issuance by the Commission of any stop order or other suspension of the effectiveness of the Registration Statement at the earliest possible time and take all lawful action to effect the withdrawal, recession or removal of such stop order or other suspension;

(F) Cause all the Registrable Securities covered by the Registration Statement to be listed on the principal national securities exchange, and included in an inter-dealer quotation system of a registered national securities association, on or in which securities of the same class or series issued by the Company are then listed or included;

(G) Cooperate with Holder who holds Registrable Securities being offered to facilitate the timely preparation and delivery of certificates for the Registrable Securities to be offered pursuant to the registration statement and enable such certificates for the Registrable Securities to be in such denominations or amounts, as the case may be, as Holder reasonably may request and registered in such names as Holder may request; and, within three (3) business days after a registration statement which includes Registrable Securities is declared effective by the Commission, deliver and cause legal counsel selected by the Company to deliver to the transfer agent for the Registrable Securities (with copies to the Investors whose Registrable Securities are included in such registration statement) an appropriate instruction and, to the extent necessary, an opinion of such counsel;

(H) Take all such other lawful actions reasonably necessary to expedite and facilitate the disposition by Holder of its Registrable Securities in accordance with the intended methods therefore provided in the Prospectus which are customary under the circumstances; and

(I) (i) Make reasonably available for inspection by Holder, any underwriter participating in any disposition pursuant to the Registration Statement, and any attorney, accountant or other agent retained by such Investors or any such underwriter all relevant financial and other records, pertinent corporate documents and properties of the Company and its subsidiaries, and (ii) cause the Company's officers, directors and employees to supply all information reasonably requested by Holder or an such underwriter, attorney, accountant or agent in connection with the Registration Statement, in each case, as is customary for similar due diligence examinations; provided, however, that all records information and documents that are designated in writing by the Company, in good faith as confidential, proprietary or containing any material nonpublic information shall be kept confidential by such Investors and any such underwriter, attorney, accountant or agent (pursuant to an appropriate confidentiality agreement in the case of any such holder or agent), unless such disclosure is made pursuant to judicial process in a court proceeding (after first giving the Company an opportunity promptly to seek a protective order or otherwise limit the scope of the information sought to be disclosed) or is required by law, or such records, information or documents become available to the public generally or through a third party not in violation of an accompanying obligation of confidentiality; and provided, further, that, if the foregoing inspection and information gathering would otherwise disrupt the Company's conduct of its business, such inspection and information gathering shall, to the maximum extent possible, be coordinated on behalf of the majority in interest of Investors and other parties. All costs and expenses of the Holder's inspection and due diligence shall be borne by the Holder.

5.4 Obligations of Holder.

In connection with the registration of the Registrable Securities, Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it and the intended method of disposition of the Registrable Securities held by it as shall be reasonably required to effect the registration of such Registrable Securities and shall execute such documents in connection with such registration as the Company may reasonably request.

5.5 Expenses of Registration.

All expenses, other than underwriting discounts and commissions, incurred in connection with registrations, filings or qualifications pursuant to Section 5, but including, without limitation, all registration, listing, and qualifications fees, printing and engraving fees, accounting fees, and the fees and disbursements of counsel for the Company, and the reasonable fees of one firm of counsel to the holders of a majority in interest of the Registrable Securities shall be borne by the Company.

5.6 Indemnification and Contribution.

(A) Indemnification by the Company. The Company shall indemnify and hold harmless Holder and each underwriter, if any, which facilitates the disposition of Registrable Securities, and each of their respective officers and directors and each person who controls Holder or underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act (each such person being sometimes hereinafter referred to as an

"Indemnified Person") from and against any losses, claims, damages or liabilities, joint or several, to which such Indemnified Person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Registration Statement or an omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, not misleading, or arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Prospectus or an omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and the Company hereby agrees to reimburse such Indemnified Person for all reasonable legal and other expenses incurred by them in connection with investigating or defending any such action or claim as and when such expenses are incurred; provided, however, that the Company shall not be liable to any such Indemnified Person in any such case to the extent that any such loss, claim damage or liability arises out of or is based upon (i) an untrue statement or alleged untrue statement made in, or an omission or alleged omission from, such Registration Statement or Prospectus in reliance upon and in conformity with written information furnished to the Company by such Indemnified Person expressly for use therein or (ii) the use by the Indemnified Person of an outdated or defective Prospectus after the Company has provided to such Indemnified Person an updated Prospectus correcting the untrue statement or alleged untrue statement or omission or alleged omission giving rise to such loss claim damage or liability.

(B) Indemnification by the Investors and Underwriters. Holder agrees and each underwriter, if any, which facilitates the disposition of Registrable Securities shall agree, severally and not jointly, to (i) indemnify and hold harmless the Company, its directors (including any person who, with his or her consent, is named in the Registration Statement as a director nominee of the Company), its officers who sign any Registration Statement and each person, if any, who controls the Company within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, against any losses, claims, damages or liabilities to which the Company or such other persons may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in such Registration Statement or Prospectus or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statement therein (in light of the circumstances under which they were made, in the case of the Prospectus), not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such holder or underwriter expressly for use therein; provided, however, that Holder shall not be liable under this Section 5.6(B) of any amount in excess of the net proceeds paid to holder in respect of shares sold by it and (ii) reimburse the Company for any legal or other expenses incurred by the Company in connection with investigating or defending any such action or claim as such expenses are incurred.

(C) Notice of Claims, etc. Promptly after receipt by a party seeking indemnification pursuant to this Section 5.6 (an "Indemnified Party") of written notice of any investigation, claim, proceeding or other action in respect of which indemnification is being

sought (each, a "Claim"), the Indemnified Party promptly shall notify the party against whom indemnification pursuant to this Section 5.6 is being sought (the "Indemnifying Party") of the commencement thereof: but the omission to so notify the Indemnifying Party shall not relieve it from any liability that it otherwise may have to the Indemnifying Party, except to the extent that the Indemnifying Party is materially prejudiced and forfeits substantive rights and defenses by reason of such failure. In connection with any Claim as to which both the Indemnifying Party and the Indemnified Party are parties, the Indemnifying Party shall be entitled to assume the defense thereof. Notwithstanding the assumption of the defense of any Claim by the Indemnifying Party, the Indemnified Party shall have the right to employ separate legal counsel and to participate in the defense of such Claim, and the Indemnifying Party shall bear the reasonable fees, out-of-pocket costs and expenses of such separate legal counsel to the Indemnified Party if (and only if): (x) the Indemnifying Party shall have agreed to pay such fees, costs and expenses, (y) the Indemnified Party and the Indemnifying Party shall reasonably have concluded that representation of the Indemnified Party by the Indemnifying Party by the same Legal counsel would not be appropriate due to actual or, as reasonably determined by legal counsel to the Indemnified Party, potentially differing interests between such parties in the conduct of the defense of such Claim, or if there may be legal defenses available to the Indemnified Party that are in addition to or disparate from those available to the Indemnifying Party or (z) the Indemnifying Party shall have failed to employ legal counsel reasonably satisfactory to the Indemnified Party within a reasonable period of time after notice of the commencement of such Claim. If the Indemnified Party employs separate legal counsel in circumstances other than as described in clauses (x), (y) or (z) above, the fees, costs and expenses of such legal counsel shall be borne exclusively by the Indemnified Party. Except as provided above, the Indemnifying Party shall not, in connection with any Claim in the same jurisdiction, be liable for the fees and expenses of more than one firm of counsel for the Indemnified Party (together with appropriate local counsel). The Indemnified Party shall not, without the prior written consent of the Indemnifying Party (which consent shall not unreasonably be withheld), settle or compromise any Claim or consent to the entry of any judgment that does not include an unconditional release of the Indemnifying Party from all liabilities with respect to such Claim or judgment.

(D) Contribution. If the indemnification provided for this Section 5.6 is unavailable to or insufficient to hold harmless as Indemnified Person under subsection (A) or (B) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each Indemnifying Party shall contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and the Indemnified Party in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations.

(E) Notwithstanding any other provision of this Section 5.6, in no event shall any (i) Holder be required to undertake liability to any person under this Section 5.6 for any amounts in excess of the dollar amount of the proceeds to be received by Holder from the sale of Holder's Registrable Securities (after deducting any fees, discounts and commissions applicable thereto) pursuant to any Registration Statement under which such Registrable Securities are to be registered under the Securities Act and (ii) underwriter be required to undertake liability to any

Person hereunder for any amounts in excess of the aggregate discount, commission or other compensation payable to such underwriter with respect to the Registrable Securities underwritten by it and distributed pursuant to the Registration Statement.

(F) The obligations of the Company under this Section 5.6 shall be in addition to any liability which the Company may otherwise have to any Indemnified Person and the obligations of any Indemnified Person under this Section 5 shall be in addition to any liability which such Indemnified Person may otherwise have to the Company. The remedies provided in this Section 5.6 are not exclusive and shall not limit any rights or remedies which may otherwise be available to an indemnified party at law or in equity.

5.7 Assignment.

Subject to compliance with all applicable securities laws, the rights to the Company register Registrable Securities pursuant to this Agreement shall be automatically assigned by Holder to any transferee of all or any portion of such Registrable Securities (or all or any portion of the warrant) only if (a) Holder agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company within a reasonable time after such assignment, (b) the Company is, within a reasonable time after such transfer or assignment, furnished with written notice of (i) the name and address of such transferee or assignee and (ii) the securities with respect to which such registration rights are being transferred or assigned, (c) immediately following such transfer or assignment, the securities so transferred or assigned to the transferee or assignee constitute Restricted Securities and (d) at or before the time the Company received the written notice contemplated by clause (b) of this sentence the transferee or assignee agrees in writing with the Company to be bound by all of the provisions contained herein.

ARTICLE 6

MISCELLANEOUS

6.1 Transfer Procedure. Holder agrees that unless there is in effect a registration statement under the Securities Act covering the proposed transfer of all or part of this warrant, prior to any such proposed transfer the Holder shall give written notice thereof to the Company (a "Transfer Notice"). Each Transfer Notice shall describe the manner and circumstances of the proposed transfer in reasonable detail and, if the company so requests, shall be accompanied by an opinion of legal counsel, in a form reasonably satisfactory to the Company, to the effect that the proposed transfer may be effected without registration under the Act.

6.2 Notices, etc. All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed if to Holder, at such Holder's address set forth on the signature page hereof or at such other address as such Holder shall have furnished to the Company in writing, or if to the Company, to the following address:

Mr. Geoge R. Jensen, Jr.
USA Technologies, Inc.
200 Plant Avenue
Wayne, PA 19087

or at such other address as the Company shall have furnished to Holder. Each such notice or other communication shall for all purposes of this agreement be treated as effective or having been given when delivered or delivered personally, or, if sent by mail, at the earliest of its receipt or five days after the same has been deposited in a regularly maintained receptacle for the deposit of the United States mail addressed and mailed as aforesaid.

6.3 Waiver. This warrant and any term hereof maybe changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

6.4 Attorneys Fees. In the event of any dispute between the parties concerning the terms and provisions of this warrant, the party prevailing in such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable attorneys fees.

6.5 Governing Law. This warrant shall be governed by and construed in accordance with the laws of the State of California, without giving effect to it's principles regarding conflicts of law.

"COMPANY"

USA Technologies, Inc.

By: _____

Title: _____

"HOLDER"

LA JOLLA COVE INVESTORS, INC

By: _____

Title: _____

Address:

Suite 200
7817 Herschel Avenue
La Jolla, California 92037
Facsimile No. (858) 551-0987

APPENDIX 1

NOTICE OF EXERCISE

1. The undersigned hereby elects to purchase _____ shares of the Common Stock of _____ pursuant to the terms of the attached warrant, and tenders herewith payment of the purchase price of such shares in full.

2. Please issue a certificate of certificates representing said shares in the name of the undersigned or in such other name as is specified below:

(Name)

(Address)

3. The undersigned makes the representations and covenants set forth in Article 4 of the warrant agreement, a copy of which is attached hereto.

(Signature)

(Date)

LA JOLLA COVE INVESTORS, INC.
7817 HERSCHEL AVENUE, SUITE 200
LA JOLLA CALIFORNIA 92037
TELEPHONE: (858) 551-8703
FACSIMILE: (858) 551 0987
www.ljcinvestors.com

LA JOLLA

SAN FRANCISCO

August 2, 2001

George Jensen
USA Technologies
200 Plant Avenue
Wayne, PA 19087

Dear George:

This Agreement between La Jolla Cove Investors and USA Technologies shall serve as an addendum to the following documents: 9 3/4% Convertible Debenture, Registration Rights Agreement, Securities Purchase Agreement, and the Conversion Warrants Agreement. The following changes and additions are hereby made and agreed upon:

1. The monthly interest payments to La Jolla Cove Investors shall first be calculated and paid on the Initial Purchase Price (\$100,000).
2. When the Registration Statement has been declared effective, and USA Technologies has received the second payment of \$125,000, the monthly interest payments shall then be calculated and paid on the face value (\$225,000) of the Convertible Debenture.
3. If La Jolla Cove Investors elects to convert a portion of the Debenture, and on the day that election is made, the common stock closes at \$0.40 or below, USA Technologies shall have the right to prepay that portion of the Debenture La Jolla Cove Investors elected to convert, plus any unpaid interest, at 150% of such amount (unless La Jolla Cove Investors withdraws its conversion notice).

/s/ George Jensen

USA Technologies

/s/ Travis Huff

La Jolla Cove Investors

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-57496) of USA Technologies, Inc. of our report dated September 7, 2001, except for Note 14, as to which the date is September 20, 2001, with respect to the financial statements of USA Technologies, Inc. included in this Annual Report (Form 10-KSB) for the year ended June 30, 2001.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
September 28, 2001