

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

**FORM S-1**

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

**USA TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation or organization)

7359

(Primary Standard Industrial Classification Code Number)

23-2679963

(I.R.S. Employer Identification Number)

100 Deerfield Lane, Suite 140  
Malvern, Pennsylvania 19355  
(610) 989-0340

(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)

George R. Jensen, Jr.  
Chief Executive Officer  
USA Technologies, Inc.  
100 Deerfield Lane, Suite 140  
Malvern, Pennsylvania 19355  
(610) 989-0340

(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

Copies to:

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

(Approximate date of proposed sale to the public)

From time to time after this Registration Statement becomes effective.

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

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

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

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

#### CALCULATION OF REGISTRATION FEE

<u>Title of each class of Securities to be Registered</u>	<u>Amount to be Registered</u>	<u>Proposed Maximum Offering Price Per Unit (1)</u>	<u>Proposed Maximum Aggregate Offering Price</u>	<u>Amount of Registration Fee</u>
Common Stock, no par value	2,570,622 shares(2)	\$ 5.83	\$ 14,986,726.26	\$ 588.98
Common Stock, no par value	283,759 shares(3)	\$ 5.83	\$ 1,654,314.97	\$ 65.01
<b>TOTAL</b>	2,854,381 shares		\$ 16,641,041.23	\$ 653.99(4)

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

(2) This registration statement amends our registration statement on Form S-1, Commission File No. 333-142063, and pursuant to Rule 429 of the Securities Act of 1933, as amended, carries forward all of the 2,570,622 shares covered by such registration statement. These shares consist of: (i) 1,666,667 shares issued by us to S.A.C. Capital Associates, LLC, pursuant to a Securities Purchase Agreement dated March 14, 2007, and (ii) up to 903,955 shares issuable by us upon the exercise of six-year warrants, which were issued pursuant to the Securities Purchase Agreement, and which are exercisable at any time after September 14, 2007 and before September 14, 2013.

(3) This registration statement amends our registration statement on Form S-1, Commission File No. 333-147465, and pursuant to Rule 429 of the Securities Act of 1933, as amended, carries forward 283,759 shares issued by us to S.A.C. Capital Associates, LLC, pursuant to the Securities Purchase Agreement dated October 17, 2007. None of the remaining 2,084,361 shares covered by our registration statement on Form S-1, Commission File No. 333-147465 are being carried forward to this registration statement and are hereby deregistered.

(4) \$4.05 of the filing fee is being paid at the time of the filing of this registration statement. \$894.11 of the filing fee was previously paid and is offset against the currently due filing fee in connection with the Company's registration statement No. 333-142063 filed on April 12, 2007 relating to the 2,570,622 shares described in footnote (2) to this table. \$60.96 of the filing fee was previously paid and is offset against the currently due filing fee in connection with the Company's registration statement No. 333-147465 filed on November 16, 2007 relating to the 283,759 shares described in footnote (3) to this table.

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

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

**USA TECHNOLOGIES, INC.**

2,854,381 shares of Common Stock

**THE OFFERING**

The resale by our selling shareholder of up to 2,854,381 shares of common stock on The NASDAQ Global Market at the prevailing market price or in negotiated transactions. We are registering these shares as required by the terms of the registration rights agreements between the selling shareholder and us. Such registration does not mean that the selling shareholder will actually offer or sell any of these shares. We will receive no proceeds from the sale of the shares by the selling shareholder. We will receive proceeds from the sale of shares issuable by us upon the exercise of warrants by the selling shareholder. Of the shares covered by this prospectus, 833,333 are shares underlying warrants issuable as of the date of this prospectus together with an additional 70,622 shares that may be issuable under the warrants in the future in the event of the issuance of securities by us at a price that is less than the exercise price of the warrants. These warrants may be exercised at \$6.40 per share at any time before September 14, 2013.

Our common stock is listed on The NASDAQ Global Market under the symbol "USAT." On June 23, 2008, the last reported sale price of our common stock was \$5.83 per share.

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

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

The date of this prospectus is June 30, 2008.

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## PROSPECTUS SUMMARY

### OUR COMPANY

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

As of March 31, 2008, the Company had approximately 31,000 devices connected to its USALive® network. During the quarter ended March 31, 2008, the Company processed approximately 3.2 million transactions totaling over \$9.0 million.

### OUR BUSINESS

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

### OUR MARKET

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

### RESEARCH AND DEVELOPMENT COSTS

Research and development expenses, which are included in general and administrative and compensation expense in the Consolidated Statements of Operations, were approximately \$1,355,000, \$974,000, and \$1,364,000 for the years ended June 30, 2007, 2006 and 2005, respectively, and \$405,000 (unaudited) and \$992,000 (unaudited) for the nine months ended March 31, 2008 and 2007, respectively.

## ABOUT OUR OFFERING

Our selling shareholder is, as of the date of this prospectus:

- § the holder of 1,950,426 shares covered by this prospectus; and
- § the holder of unexercised warrants which, if exercised, would represent 833,333 shares, which are covered by this prospectus.

Pursuant to the registration rights agreement between the selling shareholder and us, we agreed to include in this prospectus an additional 70,622 shares that may be issuable under the warrants if we would issue securities in the future at a price less than the exercise price of the warrants.

Based upon the 15,138,470 shares of Common Stock outstanding as of March 31, 2008, and assuming all of the warrants are exercised for 833,333 shares, we would have 15,971,803 shares outstanding.

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

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

## RISK FACTORS

### RISKS RELATING TO OUR BUSINESS

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

We have experienced losses since inception. We expect to continue to incur losses for the foreseeable future as we expend substantial resources on sales, marketing, and research and development of our products. From our inception through March 31, 2008, our cumulative losses from operations are approximately \$158 million. For our fiscal years ended June 30, 2007, 2006 and 2005, we have incurred net losses of \$17,782,458, \$14,847,076 and \$15,499,190, respectively, and a net loss of \$12,663,201 during the nine months ended March 31, 2008. If we continue to incur losses, the price of our common stock can be expected to fall.

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

There is currently limited experience upon which to assume that our business will prove financially profitable or generate sufficient revenues to cover our expenses. From inception, we have generated funds primarily through the sale of securities. Although we believe that we have adequate existing resources to provide for our funding requirements through at least June 30, 2009, there can be no assurances that we will be able to continue to generate sufficient funds thereafter. We expect to raise funds in the future through sales of our debt or equity securities until such time, if ever, as we are able to operate profitably. During the first nine months of the fiscal year ending June 30, 2008, cash used in operating activities, including requirements for capital expenditures and replacement of long-term debt, was approximately \$1,200,000 per month. Assuming that the Company's monthly cash requirement for each of the next fifteen months was \$1,200,000, or an aggregate of \$18,000,000, and assuming further that the cash cost reductions described in "Liquidity And Capital Resources" on page 33 of \$4,600,000 per annum (\$5,750,000 for fifteen months) are fully realized during the next fifteen months, the Company's cash requirements, including requirements for capital expenditures and repayments of long-term debt during the next fifteen months, would be approximately \$12,250,000. Subsequent to July 1, 2009, our inability to obtain needed funding can be expected to have a material adverse effect on our operations and our ability to achieve profitability. If we fail to generate increased revenues or fail to sell additional securities you may lose all or a substantial portion of your investment.

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

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

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

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

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

We have derived, and believe we may continue to derive, a significant portion of our revenues from a limited number of large customers. Approximately 41% and 39% of the Company's accounts and finance receivables at June 30, 2007 and 2006, respectively, were concentrated with two customers each year, and 58% as of March 31, 2008 were concentrated with two customers. Approximately 40%, 29% and 11% of the Company's revenues for the year ended June 30, 2007, 2006 and 2005, respectively, were concentrated with one, two and one customer(s), respectively. Approximately 56% (40% with one customer and 16% with another customer) and 50% (43% with one customer and 7% with another customer) of the Company's revenues for the nine months ended March 31, 2008 and 2007, respectively, were concentrated with two customers. Our customers may buy less of our products or services depending on their own technological developments, end-user demand for our products and internal budget cycles. A major customer in one year may not purchase any of our products or services in another year, which may negatively affect our financial performance. If any of our large customers significantly reduce or delay purchases from us or if we are required to sell products to them at reduced prices or unfavorable terms, our results of operations and revenue could be materially adversely affected.



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

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

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

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

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

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

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

As of May 31, 2008, we have 18 pending United States patent applications and 8 pending foreign patent applications, and intend to file applications for additional patents covering our future products, although there can be no assurance that we will do so. In addition, there can be no assurance that we will maintain or prosecute these applications. The United States Government and other countries have granted us 69 patents as of May 31, 2008. There can be no assurance that:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **RISKS RELATED TO OUR COMMON STOCK**

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

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

In addition, our articles of incorporation prohibit the declaration of any dividends on the Common Stock unless and until all unpaid and accumulated dividends on the Series A preferred stock have been declared and paid. Through May 31, 2008, the unpaid and cumulative dividends on the series A preferred stock equal \$9,773,300. The unpaid and cumulative dividends on the series A preferred stock are convertible into shares of common stock at the rate of \$1000 per share at the option of the shareholder. During the years ended June 30, 2007 and 2006 and the nine months ended March 31, 2008, certain holders of the Preferred Stock converted 1,150, 1,200 and 0 (unaudited), respectively, into 11, 12 and 0 (unaudited) shares of Common Stock, respectively. Certain of these shareholders also converted cumulative preferred dividends of \$15,000, \$18,320 and \$0 (unaudited), respectively, into 15, 18 and 0 (unaudited) shares of Common Stock during the years ended June 30, 2007 and 2006 and the nine months ended March 31, 2008, respectively. There were no conversions of preferred stock or cumulative preferred dividends during the year ended June 30, 2005.

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

As of March 31, 2008, we had issued and outstanding options to purchase 161,875 shares of our common stock and warrants to purchase 1,591,735 shares. The shares underlying none of these options, and 833,333 of these warrants have been registered and may be freely sold. Market sales of large amounts of our common stock, or the potential for those sales even if they do not actually occur, may have the effect of depressing the market price of our common stock. In addition, if our future financing needs require us to issue additional shares of common stock or securities convertible into common stock, the supply of common stock available for resale could be increased which could stimulate trading activity and cause the market price of our common stock to drop, even if our business is doing well.

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

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

- o quarterly variations in operating results and achievement of key business metrics;
- o changes in earnings estimates by securities analysts, if any;
- o any differences between reported results and securities analysts' published or unpublished expectations;



- o announcements of new contracts or service offerings by us or our competitors;
- o market reaction to any acquisitions, joint ventures or strategic investments announced by us or our competitors;
- o demand for our services and products;
- o shares being sold pursuant to Rule 144 or upon exercise of warrants; and
- o general economic or stock market conditions unrelated to our operating performance.

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

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

The substantial number of our shares currently eligible for sale in the open market will tend to depress the market price of our shares. As of March 31, 2008, these shares consisted of the following:

- o 15,138,470 shares of Common Stock
- o 5,203 shares issuable upon conversion of the Series A Preferred Stock
- o 9,773 shares issuable upon conversion of the accrued and unpaid dividends on the Series A Preferred Stock
- o 833,333 shares underlying vested Common Stock warrants; and
- o 73,287 shares issuable under our 2007-A Stock Compensation Plan.

**Director and officer liability is limited.**

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

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

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

## USE OF PROCEEDS

We will not receive any of the proceeds from the sales of our Common Stock by the selling shareholder. The selling shareholder entitled to receive the net proceeds from any sales of our common stock is listed on page 72 of this prospectus. We will, however, receive proceeds from the exercise of any warrants by the selling shareholder.

As of the date of this prospectus, we would receive \$5,333,331.20 of proceeds from the exercise of the warrants for 833,333 shares at the stated exercise price of \$6.40 per share. As of June 23, 2008, the exercise price of these warrants is not in the money.

As discussed in the “Other Events” section of this prospectus, the warrants may not be exercised by the selling shareholder to the extent such exercise would cause the selling shareholder to beneficially own more than 9.99% of our then issued and outstanding shares. As of the date of this prospectus, our selling shareholder is the beneficial owner of more than 9.99% of our shares and therefore, the warrants are not presently exercisable by the selling shareholder.

**SELECTED FINANCIAL DATA**

The following selected financial data for the five years ended June 30, 2007 are derived from the audited consolidated financial statements of USA Technologies, Inc. The financial data for the nine months ended March 31, 2008 and 2007 are derived from unaudited consolidated financial statements. The unaudited consolidated financial statements include all adjustments, consisting of normal recurring accruals, which USA Technologies, Inc. considers necessary for a fair presentation of the financial position and the results of operations for these periods. Operating results for the nine months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the entire year ending June 30, 2008. The data should be read in conjunction with the consolidated financial statements, related notes, and other financial information.

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

	Nine months ended March 31	
	2008	2007
<b>OPERATIONS DATA</b>		
Revenues	\$ 11,078,571	\$ 6,711,033
Net loss	(12,663,201)	(12,176,860)
Cumulative preferred dividends	(780,588)	(781,451)
Loss applicable to common shares	<u>\$ (13,443,789)</u>	<u>\$ (12,958,311)</u>
Loss per common share (basic and diluted)	\$ (0.97)	\$ (1.65)
Cash dividends per common share	\$ --	\$ --
<b>BALANCE SHEET DATA</b>		
Total assets	\$ 42,974,500	\$ 35,210,838
Convertible Senior Notes and other long-term debt	\$ 522,346	\$ 2,930,612
Shareholders' equity	\$ 36,244,062	\$ 27,807,757

**QUARTERLY FINANCIAL DATA**

Unaudited quarterly results of operations for the years ended June 30, 2007 and 2006 and the nine months ended March 31, 2008 follow and should be read in conjunction with the consolidated financial statements, related notes and other financial information and the Company's quarterly reports on Form 10-Q for the fiscal years 2007 and 2006 and the nine months ended March 31, 2008.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
<b>YEAR ENDED JUNE 30, 2007</b>					
Revenues	\$ 2,008,897	\$ 2,011,722	\$ 2,690,414	\$ 2,446,979	\$ 9,158,012
Gross profit	\$ 615,536	\$ 284,189	\$ 317,940	\$ 128,568	\$ 1,346,233
Net loss	\$ (3,680,314)	\$ (4,377,088)	\$ (4,119,458)	\$ (5,605,598)	\$ (17,782,458)
Cumulative preferred dividends	\$ (391,157)	\$ -	\$ (390,294)	\$ -	\$ (781,451)
Loss applicable to common shares	\$ (4,071,471)	\$ (4,377,088)	\$ (4,509,752)	\$ (5,605,598)	\$ (18,563,909)
Loss per common share (basic and diluted)	\$ (0.63)	\$ (0.60)	\$ (0.45)	\$ (0.49)	\$ (2.13)
<b>YEAR ENDED JUNE 30, 2006</b>					
Revenues	\$ 1,363,886	\$ 1,957,753	\$ 1,618,776	\$ 1,474,388	\$ 6,414,803
Gross profit	\$ 314,927	\$ 787,882	\$ 687,749	\$ 219,788	\$ 2,010,346
Net loss	\$ (3,196,872)	\$ (2,864,091)	\$ (3,313,868)	\$ (5,472,245)	\$ (14,847,076)
Cumulative preferred dividends	\$ (392,057)	\$ -	\$ (391,232)	\$ -	\$ (783,289)
Loss applicable to common shares	\$ (3,588,929)	\$ (2,864,091)	\$ (3,705,100)	\$ (5,472,245)	\$ (15,630,365)
Loss per common share (basic and diluted)	\$ (0.90)	\$ (0.61)	\$ (0.74)	\$ (0.96)	\$ (3.15)
<b>NINE MONTHS ENDED MARCH 31, 2008</b>					
Revenues	\$ 11,078,571				
Gross profit	\$ 2,457,808				
Net loss	\$ (12,663,201)				
Cumulative preferred dividends	\$ (780,588)				
Loss applicable to common shares	\$ (13,443,789)				
Loss per common share (basic and diluted)	\$ (0.97)				

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

### CRITICAL ACCOUNTING POLICIES

#### GENERAL

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates. We believe the policies and estimates related to revenue recognition, software development costs, impairment of long-lived assets, goodwill and intangible assets, and investments represent our critical accounting policies and estimates. Future results may differ from our estimates under different assumptions or conditions.

#### REVENUE RECOGNITION

Revenue from the sale of equipment is recognized on the terms of freight-on-board shipping point, or upon installation and acceptance of the equipment if installation services are purchased for the related equipment. Transaction processing revenue is recognized upon the usage of the Company's cashless payment and control network. License fees for access to the Company's devices and network services are recognized on a monthly basis. Product revenues are recognized for the sale of products from Company owned vending machines when there is purchase and acceptance of product by the vending customer. In all cases, revenue is only recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed and determinable, and collection of the resulting receivable is reasonably assured. The Company estimates an allowance for product returns at the date of sale.

#### SOFTWARE DEVELOPMENT COSTS

The Company capitalizes software development costs pursuant to Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", after technological feasibility of the software is established and through the product's availability for general release to the Company's customers. All costs incurred in the research and development of new software and costs incurred prior to the establishment of technological feasibility are expensed as incurred. Amortization of software development costs commences when the product becomes available for general release to customers. Amortization of software development costs is calculated as the greater of the amount computed using (i) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues of that product or (ii) the straight-line method over the remaining estimated economic life of the product. The Company reviews the unamortized software development costs at each balance sheet date and, if necessary, will write down the balance to net realizable value if the unamortized costs exceed the net realizable value of the asset.

During May 2000, the Company reached technological feasibility for the development of the multi-media e-Port(TM) product and related internal network and, accordingly, the Company commenced capitalization of software development costs related to this product and network. Costs capitalized through 2002 were \$5.3 million, which included capitalized interest of approximately \$493,000 pursuant to SFAS No. 34, "Capitalization of Interest Costs".

During the fourth quarter of fiscal year 2002, the multi-media e-Port(TM) client product and enhanced network became available for general release to the Company's customers. During this quarter, management performed an evaluation of the commercial success and preliminary market acceptance of the multi-media e-Port(TM) and enhanced network and as a result of this evaluation the Company determined that the estimated future revenues less costs to complete and dispose of the multi-media e-Port client product was zero. Therefore, the Company wrote down \$2,663,000 of software development costs related to the multi-media e-Port client product. The unamortized balance of the software development costs after the impairment charge was amortized over an estimated useful life of two years and was fully amortized during the year ended June 30, 2004. Accumulated amortization was \$5,326,186 at March 31, 2008, and June 30, 2007, 2006, and 2005. Amortization expense was approximately \$999,000 during the year ended June 30, 2004. Such amortization is reflected in cost of sales in the accompanying consolidated statements of operations.

## **IMPAIRMENT OF LONG LIVED ASSETS**

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets" ("FAS 144"), the Company reviews its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amount of an asset or group of assets exceeds its net realizable value, the asset will be written down to its fair value. In the period when the plan of sale criteria of FAS 144 are met, long-lived assets are reported as held for sale, depreciation and amortization cease, and the assets are reported at the lower of carrying value or fair value less costs to sell.

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

## **GOODWILL AND INTANGIBLE ASSETS**

Goodwill represents the excess of cost over fair value of the net assets purchased in acquisitions. The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). Under FAS 142, goodwill is not amortized to earnings, but instead is subject to periodic testing for impairment. The Company tests goodwill for impairment using a two-step process. The first step screens for potential impairment, while the second step measures the amount of impairment. The Company uses a discounted cash flow analysis to complete the first step in this process. Testing for impairment is to be done at least annually and at other times if events or circumstances arise that indicate that impairment may have occurred. The Company has selected April 1 as its annual test date. The Company has concluded there has been no impairment of goodwill as a result of its testing on April 1, 2006, April 1, 2007, and April 1, 2008. During the nine months ended March 31, 2008, no events or circumstances arose indicating that an impairment of goodwill may have occurred.

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

Intangible assets include patents, trademarks and non-compete arrangements purchased in acquisitions. Amortization expense related to these intangible assets was \$1,236,600, \$1,236,600, and \$1,236,600 during the years ended June 30, 2007, 2006, and 2005, respectively, and \$927,450 and \$927,450 for the nine months ended March 31, 2008 and 2007, respectively.

## **INVESTMENTS**

The Company's accounts for investments in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115"). Management determines the appropriate classifications of securities at the time of purchase and reevaluates such designation as of each balance sheet date. Available for sale securities are carried at fair value, with the unrealized gains and losses reported as a separate component of stockholders' equity in other comprehensive income (loss). A judgmental aspect of accounting for investments involves determining whether an other-than-temporary decline in value of the investment has been sustained. If it has been determined that an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value, by a charge to earnings. Such evaluation is dependent on the specific facts and circumstances. Factors that are considered by the Company each quarter in determining whether an other-than-temporary decline in value has occurred include: the market value of the security in relation to its cost basis; the financial condition of the investee; and the intent and ability to retain the investment for a sufficient period of time to allow for recovery in the market value of the investment. In evaluating the factors above for available-for-sale securities, management presumes a decline in value to be other-than-temporary if the quoted market price of the security is below the investment's cost basis for a period of six months or more. However, the presumption of an other-than-temporary decline in these instances may be overcome if there is persuasive evidence indicating that the decline is temporary in nature (e.g., strong operating performance of investee, historical volatility of investee, etc.).

During the year ended June 30, 2003, the Company issued 150,000 shares of its Common Stock (\$2,850,000) for an investment in 1,870,091 shares in the Jubilee Investment Trust, PLC ("Jubilee"), a United Kingdom Investment Trust whose shares trade on the London Stock Exchange. The Company agreed not to sell the Jubilee shares for a period of 90 days from January 24, 2003 and to sell a maximum of 10% of the Jubilee shares during each month thereafter. Jubilee agreed not to sell the Company's shares of Common Stock for a period of two years from the date of issuance unless agreed to by the Company.

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

As of March 31, 2008, available-for-sales securities consisted of \$14,150,000 par value of auction rate securities ("ARS") that were purchased during January 2008. The Company's ARS are long-term variable rate securities whose dividend rates are reset every seven days through a "dutch auction" conducted by investment banks. We have the option to participate in the auction and sell our ARS to prospective buyers at par value. Our ARS are all AAA or Aaa rated, and represent preferred stock of closed-end investment funds. Our ARS have no fixed maturity dates.

Until February 2008, the auction process had allowed investors to obtain liquidity if so desired by selling the securities at their par values on the weekly auction date. However, beginning the week of February 11, 2008, the auctions for our ARS failed as a result of negative overall market conditions, meaning there were not enough buyers to purchase the amount of securities available for sale at auction. The result of a failed auction, which does not signify a default by the issuer, is that the ARS continue to pay dividends in accordance with their terms, but we are not able to liquidate any of these securities until these securities are redeemed by the issuer, or until there is a successful auction, or until such time as other markets for these investments develop.



As of March 31, 2008, we have classified \$7,575,000 of our ARS as current assets as we have received a notice of redemption at par value from the issuer subsequent to March 31, 2008, and classified the remaining \$6,575,000 of our ARS as non-current assets. Although we have uncertainty with regard to the short-term liquidity of these securities, we continue to believe that the par value represents the fair value of these investments. We currently anticipate that we will be able to realize the par value of our ARS either through redemption by the issuer, successful auction, or through a buyer outside of the auction process and believe that we have the ability to hold these securities for a sufficient period of time for us to realize the par value of these securities. As such, there was no unrealized loss recorded as of March 31, 2008 in connection with our ARS investments.

## FORWARD LOOKING STATEMENTS

This Prospectus contains certain forward looking statements regarding, among other things, the anticipated financial and operating results of the Company. For this purpose, forward looking statements are any statements contained herein that are not statements of historical fact and include, but are not limited to, those preceded by or that include the words, "believes," "expects," "anticipates," or similar expressions. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward looking information is based on various factors and was derived using numerous assumptions. Important factors that could cause the Company's actual results to differ materially from those projected, include, for example (i) the ability of the Company to generate sufficient sales to generate operating profits, or to sell products at a profit, (ii) the ability of the Company to raise funds in the future through sales of securities, (iii) whether the Company is able to enter into binding agreements with third parties to assist in product or network development, (iv) the ability of the Company to commercialize its developmental products, or if actually commercialized, to obtain commercial acceptance thereof, (v) the ability of the Company to compete with its competitors to obtain market share, (vi) the ability of the Company to obtain sufficient funds through operations or otherwise to repay its debt obligations or to fund development and marketing of its products; (vii) the ability of the Company to obtain approval of its pending patent applications or the risk that its technologies would infringe patents owned by others, (viii) the ability of the Company to satisfy its trade obligations included in accounts payable and accrued liabilities, (ix) the ability of the Company to predict or estimate its future quarterly or annual revenues given the developing and unpredictable market for its products and the lack of established revenues; (x) the ability of the Company to retain key customers as a significant portion of its revenues is derived from a limited number of key customers; (xi) the ability of a key customer to reduce or delay purchasing products from the Company; and (xii) the risk that the Company may have to take an impairment charge relating to its ARS investments in the future, or may have to sell its ARS investments below par value in the future. Although the Company believes that the forward looking statements contained herein are reasonable, it can give no assurance that the Company's expectations will be met.

## RESULTS OF OPERATIONS

### NINE MONTHS ENDED MARCH 31, 2008

Revenues for the nine months ended March 31, 2008 were \$11,078,571 compared to \$6,711,033 for the corresponding nine-month period in the previous fiscal year. This \$4,367,538 or 65% increase was primarily due to an increase in equipment sales of \$2,897,149 and license and transaction fees of \$1,470,389. The increase in equipment sales was due to an increase in sales of approximately \$2,391,000 of e-Port vending equipment sales and approximately \$649,000 in energy conservation equipment, offset by decreases of approximately \$101,000 in business center sales and approximately \$41,000 in other equipment sales. The increase in e-Port vending equipment sales was primarily related to the CCE/MasterCard Agreement and the November 2007 MasterCard Worldwide agreement. The increase in license and transaction fees was due to the increase in the number of e-Port units on our USALive® network, primarily as a result of the November 2007 MasterCard agreement and the recurring revenues being generated by the e-Ports deployed in the prior two quarters under the CCE/MasterCard Agreement.

Cost of sales for the period consisted of equipment costs of \$6,592,088 and network and transaction services related costs of \$2,028,675. The increase in cost of sales of \$3,127,395 or 57% over the prior year period was due to an increase in equipment costs of approximately \$1,981,992 and an increase of approximately \$1,145,403 of network and transaction related costs.

Gross profit for the nine months ended March 31, 2008 was \$2,457,808 compared to gross profit of \$1,217,665 for the corresponding nine-month period in the previous fiscal year. This 102% increase is primarily due to an increase in the profit margins of both the energy equipment sales as well as the e-Port vending equipment sales as a result of producing the products at a lower cost primarily due to offshore production, as well as selling both of the products at higher average sales prices.

Selling, general and administrative expense of \$14,226,973, increased by \$3,820,198 or 37% primarily due to an increase in compensation expense of approximately \$2,348,000, an increase in professional and consulting services of approximately \$607,000, an increase in recruiting fees of approximately \$388,000, and an increase of approximately \$189,000 in facilities expense, and an increase in bad debt expense of approximately \$92,000.

Compensation expense increased by approximately \$2,348,000 due primarily to an increase in salaries and benefits expense of approximately \$1,320,000 and an increase of approximately \$1,028,000 in non-cash charges related to the vesting of shares under the Long-Term Equity Incentive Program for fiscal year 2008 as compared to 2007.

Interest expense of \$112,388 decreased by \$1,755,408 primarily due to retirement of the outstanding convertible Senior Notes that were repaid in April 2007. Interest income increased by \$581,303 due to the investment in available-for-sale securities with proceeds received from private placements.

The nine-month period ended March 31, 2008 resulted in a net loss of \$12,663,201 (approximately \$2.9 million of non-cash charges) compared to a net loss of \$12,176,860 (approximately \$3.9 million of non-cash charges) for the nine-month period ended March 31, 2007.

During fiscal year 2008, the Company intends to continue to attempt to improve its business model and financial results. In this regard, we will continue our e-Port rental program. Management believes that this rental business model will accelerate the adoption of its e-Port technology among operators that do not want to initially purchase the e-Port technology outright. During the first quarter of the 2008 fiscal year, the Company entered into a contract with a manufacturer under which the manufacturer would attempt to produce for us a lower cost e-Port device. If successful, we have committed to purchase at least \$3,600,000 of the new e-Port device from this manufacturer over an eighteen month period. Finally, due to the fact that the Company, as a merchant, has recently received competitive offers from various credit card processors, the Company has discontinued considering the possibility of becoming a credit card processor at this time.

## NINE MONTHS ENDED MARCH 31, 2007

Revenues for the nine months ended March 31, 2007 were \$6,711,033 compared to \$4,940,414 for the corresponding nine-month period in the previous fiscal year. This \$1,770,619 or 36% increase was primarily due to an increase in equipment sales of \$1,580,390 and license and transaction fees of \$190,229. The increase in equipment sales was due to an increase in sales of approximately \$2,404,000 of e-Port vending equipment sales, relating primarily to our initiative with MasterCard Worldwide, and approximately \$55,000 in other equipment sales, offset by decreases of approximately \$703,000 in energy conservation equipment, approximately \$114,000 in laundry equipment sales and approximately \$62,000 in business center sales.

Cost of sales for the period consisted of equipment costs of \$4,610,096 and network and transaction related costs of \$883,272. The increase in cost of sales of \$2,343,512 or 74% over the prior year period was due to an increase in equipment costs of \$2,120,891 and an increase of \$222,621 of network and transaction related costs. The increase in equipment costs is due to the increase in equipment sales, specifically, the increase in equipment costs was due to the change in sales mixture that consisted of an increase in our higher cost e-Port equipment, as compared to the cost of our energy conservation equipment. The increase in network and transaction costs relates to an increase in the number of devices on our network and the number of transactions processed.

Gross profit for the nine months ended March 31, 2007 was \$1,217,665 compared to gross profit of \$1,790,558 for the corresponding nine-month period in the previous fiscal year. This 32% decrease is primarily due to the change in equipment sales mixture that consisted of an increase in sales of e-Ports at or near cost along with a decrease in our higher margin energy Miser sales. The resulting e-Port margins were driven by our market seeding program with Mastercard Worldwide. Product pricing under this program does not reflect the Company's current retail pricing.

General and administrative expense of \$4,233,885, increased by \$572,778 or 16% primarily due to an increase in consulting expense of approximately \$408,000, an increase in legal fees of approximately \$219,000, an increase in temporary labor expenses of approximately \$84,000 and an increase of approximately \$119,000 in product development costs, offset by a decrease in repairs and maintenance expense of approximately \$121,000 and a decrease in royalty expense of approximately \$139,000.

Compensation expense of \$6,172,890 (approximately \$1,213,000 of non-cash charges) increased by \$1,812,954 or 42%, primarily due to an increase in salaries and benefits expense of approximately \$663,000 related to the increase in the number of employees and an increase in bonus expense of approximately \$1,091,000 due to non-cash charges from common stock issued to employees and executive officers and the vesting of common stock option grants to our executive officers.

Interest expense of \$1,867,796 decreased by \$77,994 or 4% primarily due to a reduction in the amount of interest expense relating to senior notes that were repaid early in December 2006, offset by the recognition of the remaining unamortized debt discount on the \$1,645,841 of convertible Senior Notes that were repaid early in March 2007.

The nine-month period ended March 31, 2007 resulted in a net loss of \$12,176,860 (approximately \$3.9 million of non-cash charges) compared to a net loss of \$9,374,830 (approximately \$2.2 million of non-cash charges) for the nine-month period ended March 31, 2006.

## **FISCAL YEAR ENDED JUNE 30, 2007**

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

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

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

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

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

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

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

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

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

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

### **FISCAL YEAR ENDED JUNE 30, 2006**

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

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

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

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

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

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

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

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

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

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

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

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

#### **FISCAL YEAR ENDED JUNE 30, 2005**

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

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

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

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

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

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

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

Total operating expenses for the fiscal year ended June 30, 2005 was \$13,589,523, a decrease of \$5,180,899 or 28% over the prior fiscal year. The components of operating expenses (General and administrative, Compensation, Depreciation and amortization and Loss on debt modification) and the causes of this decrease are explained in further detail, below:

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

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



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

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

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

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

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

## **LIQUIDITY AND CAPITAL RESOURCES**

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

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

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

For the nine months ended March 31, 2008, net cash of \$9,774,372 was used by operating activities, primarily due to the net loss of \$12,663,201 offset by non-cash charges totaling \$2,858,540 for transactions involving the vesting and issuance of common stock to employees, the vesting of stock options, bad debt expense and the depreciation and amortization of assets. In addition to these non-cash charges, the Company's net operating assets increased by \$185,689 primarily due to an increase in inventories and decrease in accrued expenses, partially offset by an increase in accounts payable and slight decreases in accounts and finance receivables and prepaid expenses.

Proceeds from financing activities for the nine months ended March 31, 2008 provided \$19,753,369 of funds, which were necessary to support cash used in operating activities. Net proceeds of \$20,028,422 were realized from the issuance of Common Stock and exercise of Common Stock warrants, offset by the net repayment of \$275,053 of long-term debt.

The Company has incurred losses since inception. Cumulative losses through March 31, 2008 amounted to approximately \$158,000,000. The Company has continued to raise capital through equity offerings to fund operations.

As of March 31, 2008 the Company had \$6,814,731 of cash and cash equivalents on hand and \$14,150,000 of available-for-sale securities, of which \$7,575,000 and \$6,575,000 are classified as current and non-current, respectively (see Note 2 to the Consolidated Financial Statements). The ARS classified as non-current are all rated AAA or Aaa. The auctions for these securities failed in mid-February 2008, and the funds represented by the ARS will not be accessible until the issuer calls the security, a successful auction occurs, or a buyer is found outside of the auction process. Based on our expected operating cash flows and our other sources of cash, we do not believe that the uncertainty regarding the liquidity of our ARS will have a material impact on our overall ability to meet our liquidity needs for the next twelve months.

In order to attempt to improve our operating results, we took appropriate actions during the March 31, 2008 fiscal quarter to reduce our cash-based selling, general and administrative expenses by approximately \$4,600,000 on an annualized basis. These actions consisted of staff reductions and related costs of approximately \$2.6 million and reductions in our controllable costs of approximately \$2.0 million. The Company anticipates that the effect of these cost reductions will begin to be reflected in the fourth quarter of the 2008 fiscal year with the full benefit of the cost reductions reflected in the 2009 fiscal year. We also believe that these cost reductions will not materially adversely affect our planned revenue growth for the foreseeable future.

During the first nine months of the 2008 fiscal year, the Company's monthly cash requirement, including requirements for capital expenditures and repayment of long-term debt, was approximately \$1,200,000 per month. Assuming that the Company's monthly cash requirement for each of the next fifteen months was \$1,200,000, or an aggregate of \$18,000,000, and assuming further that the cash cost reductions described above of \$4,600,000 per annum (\$5,750,000 for the next fifteen months) are fully realized during the next fifteen months, the Company's cash requirements, including capital expenditures and repayment of long-term debt, during the next fifteen months would be approximately \$12,250,000.

Funding sources in place to meet the Company's cash requirements are primarily comprised of approximately \$6,800,000 of cash and cash equivalents on hand as of March 31, 2008 and \$7,575,000 of current available-for-sale securities. Based upon the assumptions described above, the Company believes these existing sources will provide sufficient funds to meet its cash requirements, including capital expenditures and repayment of long-term debt, through at least July 1, 2009.

## COMMITMENTS

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

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

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

## OTHER EVENTS

On March 14, 2007, the Company entered into a Securities Purchase Agreement with S.A.C. Capital Associates, LLC, the selling shareholder under this prospectus. Pursuant thereto, the Company sold to the selling shareholder 1,666,667 shares of the Company's Common Stock at a price of \$6.00 per share for an aggregate purchase price of \$10,000,002. The Company also issued warrants to the selling shareholder to purchase up to 833,333 shares of Common Stock at an exercise price of \$6.40 per share. There were no commissions or placement agent fees paid by the Company in connection with this offering. The warrants are exercisable at any time prior to September 14, 2013. As of the date of this prospectus, the selling shareholder has not exercised any of the warrants.

The warrant provides that if we would issue securities in the future at a purchase price that is less than the exercise price of the warrant, then the exercise price of the warrant would be reduced to such lower purchase price, provided, however, that such exercise price can never be lower than \$5.90 which was the closing bid price of our shares on the day prior to the sale of our securities to the selling shareholder. The warrant also provides that in the event we issue securities at a purchase price less than the exercise price of the warrant, the number of shares issuable under the warrant shall be increased by that number of shares determined by multiplying the exercise price in effect immediately prior to such adjustment by the number of shares issuable under the warrant immediately prior to such adjustment and dividing the product thereof by the new exercise price of the warrant (which can never be less than \$5.90). Under this formula, the maximum number shares that would be issuable under the warrant would be 903,955. The warrant provides that no adjustment shall be made in connection with any securities issued pursuant to any employee benefit plan for employees, officers, consultants, or directors, or to any shares issued upon the exercise or conversion of any convertible securities outstanding as of the date of the warrant.

Pursuant to the March 14, 2007 registration rights agreement between us and the selling shareholder, we agreed to register for resale in this prospectus that number of shares equal to the 1,666,667 shares purchased by the selling shareholder and the maximum of 903,955 shares issuable under the warrant issued to the selling shareholder, or an aggregate of 2,570,622 shares. The Company has agreed to keep the registration statement effective at all times until the earlier of (i) the date as of which the selling shareholder may sell all of the securities covered by such registration statement without restriction pursuant to Rule 144(k) (or any successor thereto) promulgated under the 1933 Act, or (ii) the date on which the selling shareholder shall have sold all of the securities covered by such registration statement.

Under the terms of the warrants, the selling shareholder may not exercise the warrants, to the extent such exercise would cause the selling shareholder, together with its affiliates, to beneficially own a number of shares of common stock which would exceed 9.99% of our then outstanding shares of common stock following such exercise, excluding for purposes of such determination shares of common stock issuable upon exercise of the warrants which have not been exercised. As of the date of this prospectus, our selling shareholder is the beneficial owner of more than 9.99% of our shares and therefore, the warrants are not presently exercisable by the selling shareholder.

For a period of five years, the selling shareholder has been granted the pre-emptive right to purchase that number of securities being offered for sale by the Company in order to maintain selling shareholder's pro-rata ownership of the Common Stock of the Company following the issuance of any such securities by the Company.

The selling shareholder is an accredited investor and the offer and sale of the shares and the warrants was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act.

On October 17, 2007, the Company sold an aggregate of 2,142,871 shares of Common Stock for \$7.00 per share for \$15,000,097 to 37 investors pursuant to a Securities Purchase Agreement entered into with each of the investors. Pursuant to this offering, S.A.C. Capital Associates, LLC, the selling shareholder, purchased 283,759 shares for \$1,986,313. The offer and sale of the shares was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act. All of these investors, including the selling shareholder, are accredited investors. Pursuant to the October 17, 2007 Registration Rights Agreement entered into between the Company and the selling shareholder, we have agreed to register the shares purchased by the selling shareholder for resale under the Act through October 17, 2009. The 283,759 shares purchased by the selling shareholder are covered by this prospectus.

In connection with the above October 17, 2007 private placement offering, William Blair & Company, LLC, acted as exclusive placement agent. As compensation for its services, Blair received cash compensation of \$945,000 and warrants to purchase up to 17,532 shares at \$7.70 per share at any time through October 17, 2012. Blair also received an expense reimbursement from us of \$7,418.44.

## **BUSINESS**

### **OVERVIEW**

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

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

As of March 31, 2008, the Company had approximately 31,000 devices connected to its USALive® network. During the quarter ended March 31, 2008, the Company processed approximately 3.2 million transactions totaling approximately \$9.0 million.

## **OUR TECHNOLOGY-BASED SOLUTION**

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

### **The Client**

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

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

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

### **The Connectivity Mediums**

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

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

## **The Network**

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

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

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

## OUR PRODUCTS AND SERVICES

### Intelligent Vending®

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

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

### e-Suds™

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

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

### Business Express®

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



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

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

## **Kiosk**

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

## **Energy Management Products**

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

The Miser family of energy-control devices include:

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

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

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

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

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

## **THE OPPORTUNITY**

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

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

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

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

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

## **THE INDUSTRY**

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

### **Vending**

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

### **Commercial Laundry**

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

## **Business Centers**

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

## **Kiosk**

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

## **SALES AND MARKETING**

The Company's sales strategy includes both direct sales and channel development, depending on the particular dynamics of each of our markets. Our marketing strategy is diversified and includes media relations, direct mail, conferences and client referrals. As of March 31, 2008, the Company was marketing and selling its products through its full time staff consisting of 12 people.

### **Direct Sales**

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

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

### **Channel Sales**

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

## **Marketing**

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

## **STRATEGIC RELATIONSHIPS**

### **MasterCard International**

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

In November 2006, MasterCard International and the Company signed an agreement to deploy 5,000 e-Port devices that accept MasterCard "PayPass™". As of June 30, 2007, the Company had earned approximately \$1,975,000 from this agreement, and all of the units were installed.

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

On November 16, 2007, the Company and MasterCard International Incorporated entered into an additional MasterCard PayPass Agreement as part of MasterCard's PayPass seeding initiative. The agreement provides that USA shall use its best efforts to secure the installation of an additional 4,051 G-6 e-Ports that accept credit cards utilizing MasterCard's PayPass contactless technology. The e-Ports are anticipated to be installed in beverage vending machines of USA customers located in multiple cities throughout the United States. For each e-Port successfully installed, the Company would receive \$395 from Mastercard in full payment for the e-Port. As of March 31, 2008, all of the units had been installed.

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

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

## **Coca-Cola Enterprises, Inc.**

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

The Agreement also includes as an exhibit the MasterCard PayPass Participation Agreement entered into between us, CCE, and MasterCard International Incorporated under which CCE had agreed to use commercially reasonable efforts to complete installation of up to 7,500 e-Ports by August 31, 2007. By amendment executed by the parties to the Agreement, the installation completion date was changed to October 31, 2007. In addition to accepting credit and debit cards, these e-Ports accept payment from credit cards utilizing MasterCard’s PayPass contactless technology. The e-Ports would be utilized in CCE beverage vending machines in multiple cities throughout the United States. For each e-Port successfully installed by CCE, we will receive an aggregate of \$433 from CCE and MasterCard. As of October 31, 2007, a total of approximately 7,000 units have been installed by CCE, and as of December 31, 2007, all of the units have been installed by CCE.

## **MANUFACTURING**

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

## **COMPETITION**

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

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

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

## **CUSTOMER CONCENTRATIONS**

Approximately 41% and 39% of the Company's accounts and finance receivables at June 30, 2007 and 2006, respectively, were concentrated with two customers each year. Approximately 40%, 29% and 11% of the Company's revenues for the year ended June 30, 2007, 2006 and 2005, respectively, were concentrated with one, two (19% with one customer and 10% with another customer), and one customer(s), respectively. Approximately 56% (40% with one customer and 16% with another customer) and 50% (43% with one customer and 7% with another customer) of the Company's revenues for the nine months ended March 31, 2008 and 2007, respectively, were concentrated with two customers. The Company's customers are principally located in the United States.

## **TRADEMARKS, PROPRIETARY INFORMATION AND PATENTS**

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

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

Through May 31, 2008, 64 United States patents and 5 Foreign patents have been issued to the Company, 18 United States patents and 8 Foreign patents are pending.

The list of issued patents is as follows:

- o U.S. Patent No. 5,619,024 entitled "Credit Card and Bank Issued Debit Card Operating System and Method for Controlling and Monitoring Access of Computer and Copy Equipment"; o U.S. Patent No. 5,637,845 entitled "Credit and Bank Issued Debit Card Operating System and Method for Controlling a Prepaid Card Encoding/Dispensing Machine";
- o U.S. Patent No. D423,474 entitled "Dataport";
- o U.S. Patent No. D415,742 entitled "Laptop Dataport Enclosure";
- o U.S. Patent No. D418,878 entitled "Sign Holder";
- o U.S. Patent No. 6,056,194 entitled "System and Method for Networking and Controlling Vending Machines";
- o U.S. Patent No. D428,047 entitled "Electronic Commerce Terminal Enclosure";
- o U.S. Patent No. D428,444 entitled "Electronic Commerce Terminal Enclosure for a Vending Machine";
- o U.S. Patent No. 6,119,934 entitled "Credit Card, Smart Card and Bank Issued Debit Card Operated System and Method for Processing Electronic Transactions";
- o U.S. Patent No. 6,152,365 entitled "Credit and Bank Issued Debit Card Operated System and Method for Controlling a Vending Machine";
- o U.S. Patent No. D437,890 entitled "Electronic Commerce Terminal Enclosure with a Hooked Fastening Edge for a Vending Machine";
- o U.S. Patent No. D441,401 entitled "Electronic Commerce Terminal Enclosure with Brackets";
- o U.S. Patent No. 6,321,985 entitled "System and Method for Networking and Controlling Vending Machines";
- o U.S. Patent No. 6,505,095 entitled "System for Providing Remote Audit, Cashless Payment, and Interactive Transaction Capabilities in a Vending Machine" (Stitch);
- o U.S. Patent No. 6,389,337 entitled "Transacting e-commerce and Conducting e-business Related to Identifying and Procuring Automotive Service and Vehicle Replacement Parts" (Stitch);



- o U.S. Patent No. 6,021,626 entitled "Forming, Packaging, Storing, Displaying and Selling Clothing Articles";
- o U.S. Patent No. 6,622,124 entitled "Method of transacting an electronic mail, an electronic commerce, and an electronic business transaction by an electronic commerce terminal operated on a transportation vehicle";
- o U.S. Patent No. 6,615,186 entitled "Communicating interactive digital content between vehicles and internet based data processing resources for the purpose of transacting e-commerce or conducting e-business";
- o U.S. Patent No. 6,615,183 entitled "Method of warehousing user data entered at an electronic commerce terminal";
- o U.S. Patent No. 6,611,810 entitled "Store display window connected to an electronic commerce terminal";
- o U.S. Patent No. 6,609,103 entitled "Electronic commerce terminal for facilitating incentive-based purchasing on transportation vehicles";
- o U.S. Patent No. 6,609,102 entitled "Universal interactive advertising and payment system for public access electronic commerce and business related products and services";
- o U.S. Patent No. D478,577 entitled "Transceiver base unit";
- o U.S. Patent No. 6,606,605 entitled "Method to obtain customer specific data for public access electronic commerce services";
- o U.S. Patent No. 6,606,602 entitled "Vending machine control system having access to the internet for the purposes of transacting e-mail, e-commerce, and e-business, and for conducting vending transactions";
- o U.S. Patent No. 6,604,087 entitled "Vending access to the internet, business application software, e-commerce, and e-business in a hotel room";
- o U.S. Patent No. 6,604,086 entitled "Electronic commerce terminal connected to a vending machine operable as a telephone";
- o U.S. Patent No. 6,604,085 entitled "Universal interactive advertising and payment system network for public access electronic commerce and business related products and services";
- o U.S. Patent No. 6,601,040 entitled "Electronic commerce terminal for wirelessly communicating to a plurality of communication devices";
- o U.S. Patent No. 6,601,039 entitled "Gas pump control system having access to the Internet for the purposes of transacting e-mail, e-commerce, and e-business, and for conducting vending transactions";
- o U.S. Patent No. 6,601,038 entitled "Delivery of goods and services resultant from an electronic commerce transaction by way of a pack and ship type company";

- o U.S. Patent No. 6,601,037 entitled "System and method of processing credit card, e-commerce, and e-business transactions without the merchant incurring transaction processing fees or charges worldwide";
- o U.S. Patent No. D477,030 entitled "Vending machine cashless payment terminal";
- o U.S. Patent No. D476,037 entitled "User interface bracket for a point of sale terminal";
- o U.S. Patent No. D476,036 entitled "Printer bracket for point of sale terminal";
- o U.S. Patent No. D475,751 entitled "User interface bracket for a point of sale terminal";
- o U.S. Patent No. D475,750 entitled "Paper guide for a point of sale terminal";
- o U.S. Patent No. D475,414 entitled "Printer bracket for point of sale terminal";
- o U.S. Patent No. 5,844,808 entitled "Apparatus and methods for monitoring and communicating with a plurality of networked vending machines";
- o U.S. Patent No. 6,581,396 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode";
- o U.S. Patent No. 6,389,822 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode";
- o U.S. Patent No. 6,243,626 entitled "External power management device with current monitoring precluding shutdown during high current"; and
- o U.S. Patent No. 5,477,476 entitled "Power conservation system for computer peripherals";
- o U.S. Patent No. 6,629,080 entitled "Transaction processing method of fulfilling an electronic commerce transaction by an electronic commerce terminal system";
- o U.S. Patent No. D480,948 entitled "Mounting bracket for mounting a cashless payment terminal to a vending machine";
- o U.S. Patent No. 6,643,623 entitled "A method of transacting an electronic mail, an electronic commerce, and an electronic business transaction by an electronic commerce terminal using a gas pump";
- o U.S. Patent No. 6,684,197 entitled "Method of revaluing a private label card using an electronic commerce terminal (as amended)";
- o U.S. Patent No. 6,754,641 entitled "Dynamic identification interchange method for exchanging one form of identification for another";
- o U.S. Patent No. 6,763,336 entitled "Method of transacting an e-mail, an e-commerce, and an e-business transaction by an electronic commerce terminal using a wirelessly networked plurality of portable devices";

- o U.S. Patent No. 6,801,836 entitled "Power-conservation based on indoor/outdoor and ambient-light determinations";
- o U.S. Patent No. 6,807,532 entitled "Method of soliciting a user to input survey data at an electronic commerce terminal";
- o U.S. Patent No. 6,853,894 entitled "Global network based vehicle safety and security telematics";
- o U.S. Patent No. 6,856,820 entitled "An in-vehicle device for wirelessly connecting a vehicle to the internet and for transacting e-commerce and e-business";
- o U.S. Patent No. 6,895,310 entitled "Vehicle related wireless scientific instrumentation telematics";
- o U.S. Patent No. 6,898,942 entitled "Method and apparatus for conserving power consumed by a refrigerated appliance";
- o U.S. Patent No. 6,931,869 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode";
- o U.S. Patent No. 6,975,926 entitled "Method and apparatus for power management control of a compressor-based appliance that reduces electrical power consumption on an appliance";
- o U.S. Patent No. 7,003,289 entitled "Communication interface device for managing wireless data transmission between a vehicle and the internet";
- o U.S. Patent No. 7,076,329 entitled "Cashless vending transaction management by a Vend Assist mode of operation";
- o U.S. Patent No. 7,089,209 entitled "Method for revaluing a phone card";
- o U.S. Patent No. 7,131,575 entitled "MDB transaction string effectuated cashless vending";
- o U.S. Patent No. 7,200,467 entitled "Method and Apparatus for Power Management Control of a Compressor-Based Appliance that Reduces Electrical Power Consumption of an Appliance";
- o U.S. Design Patent No. D543,588 entitled "Point of Sale Terminal Mountable on a Vending Machine";
- o U.S. Patent No. 7,286,907 entitled "Method and Apparatus for Conserving Power Consumed by a Refrigerated Appliance Utilizing Audio Signal Detection";
- o Canadian Patent No. D199-1014 entitled "Sign holder";
- o Canadian Patent No. D199-1038 entitled "Laptop data port enclosure";

- o Canadian Patent No. 2,291,015 entitled "Universal interactive advertising and payment system for public access electronic commerce and business related products and services";
- o Australian Patent No. 2001263356 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode"; and
- o Mexican Patent No. 234363 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode".

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

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

## **RESEARCH AND DEVELOPMENT**

Research and development expenses, which are included in general and administrative and compensation expense in the Consolidated Statements of Operations, were approximately \$1,355,000, \$974,000, and \$1,364,000 for the years ended June 30, 2007, 2006 and 2005, respectively, and \$405,000 (unaudited) and \$992,000 (unaudited) for the nine months ended March 31, 2008 and 2007, respectively.

## **EMPLOYEES**

On March 31, 2008, the Company had 69 full-time employees and 2 part-time employees.

## **PROPERTY**

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

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

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

## MANAGEMENT

### DIRECTORS AND EXECUTIVE OFFICERS

Our Directors and executive officers, on March 31, 2008, together with their ages and business backgrounds were as follows:

Name	Age	Position(s) Held
George R. Jensen, Jr.	58	Chief Executive Officer, Chairman Of the Board of Directors
Stephen P. Herbert	44	Chief Operating Officer and President, Director
David M. DeMedio	36	Chief Financial Officer
William L. Van Alen, Jr. (1)(2)	74	Director
Steven Katz (1)	59	Director
Douglas M. Lurio	51	Director
Joel Brooks (2)	49	Director
Stephen W. McHugh (2)	51	Director

(1) Member of Compensation Committee

(2) Member of Audit Committee

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

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

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

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

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

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

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

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

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

## **COMPENSATION DISCUSSION AND ANALYSIS**

Our Compensation Committee is currently comprised of two non-employee directors. The Compensation Committee is responsible for reviewing and recommending compensation and compensation changes for the executive officers of the Company. The compensation of the two other employees named in the Summary Compensation Table is determined by the executive officers. The Chief Executive Officer assists the Committee in determining the compensation of all other executive officers and the other executive officers do not have a role in determining their own compensation. Our Chief Executive Officer regularly provides information to the Compensation Committee. The Compensation Committee considers each component of executive compensation in light of total compensation. In considering adjustments to the total compensation of the executive officers, the Compensation Committee also considers the value of previous compensation.

We have developed a compensation policy that is designed to attract and retain key executives responsible for our success and motivate management to enhance long-term shareholder value. The Compensation Committee believes that compensation of the Company's executive officers should encourage creation of shareholder value and achievement of strategic corporate objectives and the Committee seeks to align the interests of the Company's shareholders and management by integrating compensation with the Company's annual and long-term corporate and financial objectives. We believe that providing our executive officers who have responsibility for the Company's management and growth with an opportunity to increase their ownership of Company stock aligns the interests of the executive officers with those of the shareholders. During the 2007 fiscal year, we adopted the Long Term Equity Incentive Program for our executive officers in order to provide them with the opportunity to further increase the number of shares owned by them. In order to be competitive with compensation offered by other technology companies and to motivate and retain executive officers, the Company intends to offer a total compensation package competitive with other technology companies as well as take into account individual responsibilities and performance. The annual compensation package for our executives primarily consists of:

- a base salary
- stock options
- long-term stock incentive awards
- cash and stock bonuses
- restricted stock awards
- other benefits

### **Base Salary**

Base salary is the fixed component of our executive's annual cash compensation and is set with the goal of attracting talented executives and adequately compensating and rewarding them for services rendered during the fiscal year. For fiscal 2007, our executive officers had employment agreements that specified the level of salary to which the officer is entitled, subject to review of our Board or Compensation Committee from time to time. These base salaries were established in April 2006, and reflected the individual's level of responsibility and performance. In recommending base salaries to the Board, the Compensation Committee also considers changes in duties and responsibilities, our business and financial results, the relationship among base salaries paid to others within our Company, and its knowledge of base salaries paid to executive officers of other technology companies. As permitted under his employment agreement, Mr. Jensen elected to receive fifty-percent (50%) of his base salary in shares of Common Stock rather than cash payments during the 2007 fiscal year. The base salaries for each of Messrs. Sagady and McLaughlin for the fiscal year were established by our President after discussions with each employee.

### **Stock Options**

Stock options serve to ensure that executive management is properly focused on shareholder value. Stock options align management incentives with shareholder's objectives because options have value only if the stock price increases over time. A vesting schedule also keeps the executives focused on long term performance and not short term gains. For fiscal 2007, various stock options became vested that were granted to our executive officers at the time the officers entered into their employment agreements in May 2006. During the fiscal year, the Company granted to our executive officers piggy back registration rights in connection with the shares underlying the options granted to them in their employment agreements.



## Restricted Stock Awards

During fiscal 2007, shares of restricted stock became vested that had been issued to Messrs. Jensen and Herbert at the time they entered into their May 2006 employment agreements. During the fiscal year, the Company granted to our executive officers piggy back registration rights in connection with the restricted shares granted to them in their employment agreements.

## Cash and Stock Bonuses

In addition to base salary, we may award variable cash bonus awards to our executives as well as shares available under our stock compensation programs. The shares awarded under our stock compensation plans are registered under the Securities Act of 1933, as amended. Shares were awarded under our stock plans to each of Messrs. Sagady and McLaughlin during the fiscal year. The shares were awarded to them upon the recommendation of our President. In addition, based upon performance, Messrs. Sagady and McLaughlin earned cash bonuses.

## Long-Term Equity Incentive Program

During February 2007, at the recommendation of the Compensation Committee, the Board of Directors adopted the Long-Term Equity Incentive Program covering the Company's executive officers – Messrs. Jensen, Herbert and DeMedio. The purpose of the Plan is to ensure continuity of the Company's executives, encourage stock ownership by the executives, align the interests of the executives with those of the shareholders, and provide incentives and rewards to the executives who are largely responsible for the management and growth of the Company.

Under the Plan, each executive officer will be awarded common stock of the Company in the event the Company achieves target goals relating to each of revenues, gross profit and EBITDA during each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009. EBITDA is defined as earnings before interest, taxes, depreciation, and amortization, and excludes non-cash stock payments/awards and stock options granted to officers and Board members. During each such fiscal year, the number of eligible shares to be awarded to the executive is based upon the following weightings: 40% of eligible shares are determined by revenues; 30% of eligible shares are determined by gross profit; and 30% of eligible shares are determined by EBITDA.

If the target goals (100%) for revenues, gross profit, and EBITDA are achieved by the Company during the applicable fiscal year, the executive officers would be awarded the following number of shares:

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

If actual revenues, gross profit, or EBITDA for a particular fiscal year exceed the target goals, each executive would be awarded additional eligible shares, up to an amount no greater than 125% of the number of eligible shares. If the actual revenues, gross profit, or EBITDA for a particular fiscal year are less than the target goals, each executive would be awarded a lesser pro rata portion of the number of eligible shares. If minimum target goals for revenues, gross profit, or EBITDA for a particular fiscal year are not achieved, no eligible shares will be awarded to each executive. Up to 952,298 shares of common stock are reserved for issuance under the Plan.

Based upon the financial results of the Company for the fiscal year ended June 30, 2007, the target goal (100%) relating to revenues was met and the minimum target goals relating to gross profit and EBITDA were not met. Substantially all of the e-Port units sold during the fiscal year consisted of units pertaining to the MasterCard PayPass seeding program with substantially reduced selling prices resulting in reduced gross profit and EBITDA.

Management's goal was to have the maximum number of units deployed in the field as quickly as possible. The Compensation Committee agreed with management that given the current stage of the Company's business, it was more beneficial to the Company to maximize the number of e-Ports in the field as soon as possible.

During September 2007, the Board of Directors approved the recommendation of the Compensation Committee that the selling price of all the e-Ports sold during the fiscal year be "normalized" to the current retail price. This normalization resulted in increased pro forma revenues, gross profit and EBITDA for the e-Port units sold in the MasterCard PayPass seeding program. The Board of Directors also approved the recommendation of the Compensation Committee that the executive officers be given the option to elect to satisfy certain minimum tax withholding obligations for the restricted stock bonuses previously awarded and issued to the executives under their employment agreements by reducing the number of shares otherwise issuable to them under the Plan.

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

The Plan also permits the executives to satisfy any income tax withholding obligations attributable to the shares that become vested under the Plan by electing to reduce the number of shares otherwise issuable to them under the Plan. The payment of the withholding taxes attributable to the vested shares must be made by the Company no later than December 30, 2007, and therefore, any such election by the executives to cancel shares must be made by such date. The executives did not elect to cancel any additional shares on or before December 31, 2007.

It is difficult for management to fully predict our unit sales for e-Ports for the 2008 fiscal year. If the MasterCard seeding program would continue for the majority of the 2008 fiscal year, management believes that it is likely that the Company would not meet the target (100%) goals established under the Plan for the 2008 fiscal year relating to gross profit and EBITDA but would meet the target (100%) goal established under the Plan for the 2008 fiscal year relating to revenue.

### **Other Benefits**

Our health care, insurance and other employee benefits are substantially the same for all our employees, including our executive officers. We do maintain an automobile allowance program for each of our executive officers.

### **Impact of Taxation and Accounting Considerations on Executive Compensation**

The Compensation Committee and the Board take into account tax and accounting consequences of the compensation program and weigh these factors when setting total compensation and determining the individual elements of any executive officer's compensation package.

As a result of the normalization discussed above, certain target hurdles were met resulting in the vesting of a total of 241,249 shares under the Plan for the fiscal year rather than a total of 101,578 shares prior to the normalization. Also, the value of the number of shares the executives may apply to tax withholding was in excess of the minimum statutory obligation and, as a result, the Plan is classified as a liability award rather than an equity award. As such, the Company reclassified the \$599,311 related to the 101,578 shares that was previously recorded in Common Stock to a short-term share-based payment liability. As the price of the Company's shares was \$8.45 on the date of the approval of the normalization, a charge of \$1,180,220 was also recorded to compensation expense, related to the additional 139,671 additional shares, with a corresponding amount to the short-term share-based payment liability for a total share-based payment liability of \$1,779,531 as of September 21, 2007. On September 28, 2007, as the Company's share price was \$8.38, the total share-based payment liability related to fiscal year 2007 was \$1,769,754 (\$599,311 compensation expense in fiscal year 2007 and \$1,170,443 in the three months ended September 30, 2007). Of the 241,249 shares vested for fiscal year 2007, the Company issued 225,249 shares of Common Stock and the remaining 16,000 shares were exchanged by the executives and cancelled by the Company to settle tax withholding obligations paid by the Company totaling \$134,080 in connection with the restricted stock bonuses previously awarded and issued to them under their employment agreements. As a result of the fact that a portion of the remaining 225,249 shares are subject to cancellation as discussed above, the Company has recorded the entire fair value of these remaining shares as a short-term share-based payment liability as of September 30, 2007 totaling \$1,635,674. The Company will continue to re-measure this share-based liability until final settlement with changes in the fair value being charged to compensation expense. Final settlement will occur upon the exercise or lapse of the cancellation provision on December 30, 2007 and the fair value of the remaining shares will be charged to Common Stock. The executives did not elect to cancel any additional shares, and this provision lapsed on December 31, 2007.

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

The charge for the additional 139,671 shares issued to our executives under the plan as a result of the normalization is not reflected in the compensation tables presented below and will be reflected in the compensation tables presented in connection with the 2008 fiscal year.

**SUMMARY COMPENSATION TABLE**

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

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

- (1) Employment as Chief Financial Officer commenced on April 12, 2005.
- (2) Employment as Vice President of Sales commenced on August 3, 2004.
- (3) Employment as Vice President of Research and Development commenced on January 1, 2006.
- (4) Includes Mr. Jensen's election to receive one-half of his base salary in Common Stock during the 2007 fiscal year. As a result, 22,080 restricted shares were issued to Mr. Jensen on June 30, 2006 and recorded at \$7.36 per share of Common Stock for a total value of \$162,500 during the fiscal year. These shares vested as follows: 5,520 on July 1, 2006; 5,520 on October 1, 2006; 5,520 on January 1, 2007; and 5,520 on April 1, 2007
- (5) Consists of cash bonuses awarded upon achievement of performance goals.
- (6) Fiscal year 2007 includes 50,000 shares (25,000 vested on January 1, 2007 and 25,000 vested on June 1, 2007) valued at \$8.00 per share and 71,428 shares valued at \$5.90 per share relating to the Long-Term Equity Incentive Program for Mr. Jensen; 33,333 shares (16,666 vested on January 1, 2007 and 16,666 vested on June 1, 2007) valued at \$8.00 and 21,485 shares valued at \$5.90 per share relating to the Long-Term Equity Incentive Program for Mr. Herbert; 8,665 shares valued at \$5.90 relating to the Long-Term Equity Incentive Program for Mr. DeMedio; 3,150 shares valued at \$5.975 per share for Mr. McLaughlin and 4,500 shares valued at \$6.15 per share for Mr. Sagady. Fiscal year 2006 includes 25,000 shares that vested on June 1, 2006 valued at \$8.00 per share for Mr. Jensen; and 16,667 shares that vested on June 1, 2006 valued at \$8.00 per share for Mr. Herbert.
- (7) Fiscal year 2007 includes 25,000 options that vested on June 30, 2007 at the fair market value of the grant date of \$5.51 for Mr. Jensen; 6,000 options that vested on June 30, 2007 at the fair market value of the grant date of \$5.51 for Mr. Herbert; 2,333 options that vested on June 30, 2007 at the fair market value of the grant date of \$5.51 and 1,500 options that vested on various dates during the fiscal year at the fair market value of the grant of \$9.00 for Mr. DeMedio. Fiscal year 2006 includes 25,000 options that vested on June 30, 2006 at the fair market value of the grant date of \$5.51 for Mr. Jensen; 6,000 options that vested on June 30, 2006 at the fair market value of the grant date of \$5.51 for Mr. Herbert; 2,334 options that vested on June 30, 2006 at the fair market value of the grant date of \$5.51 and 1,500 options that vested on various dates during the fiscal year at the fair market value of the grant of \$9.00 for Mr. DeMedio.
- (8) Represents cash payments for car allowance payments.

**GRANTS OF PLAN-BASED AWARDS TABLE**

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

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

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

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

**TOTAL OPTION EXERCISES AND STOCK VESTED**

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

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

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

**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END**

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

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

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

**EXECUTIVE EMPLOYMENT AGREEMENTS**

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

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

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

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

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



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

On May 11, 2006, the Company and Mr. DeMedio entered into an amendment to his Employment Agreement pursuant to which the term of Mr. DeMedio's employment with the Company was extended to June 30, 2008. During April 2008, the agreement was automatically extended for an additional year, or until June 30, 2009. Effective May 11, 2006, Mr. DeMedio's base salary was increased to \$165,000 per annum. Mr. DeMedio was granted the right to elect to have one-half of his base salary for each of the fiscal years ending June 30, 2007, and June 30, 2008 paid in shares of Common Stock rather than cash. Mr. DeMedio was also granted options to purchase up to 7,000 shares of Common Stock at \$7.50 per share. The options vest as follows: 2,334 on May 11, 2006; 2,333 on June 30, 2007; and 2,333 on June 30, 2008. The options may be exercised at any time within 5 years of vesting. In October 2006, the Company granted to Mr. DeMedio piggyback registration rights under the 1933 Act for the shares underlying any of the options described above for a period of five years following the vesting of any such options. In the event that a USA Transaction (as defined in Mr. Jensen's employment agreement) shall occur, then Mr. DeMedio has the right to terminate his agreement upon 30 days notice to the Company.

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

## Potential Payments Upon Termination Or Change Of Control

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

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

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

- (1) Represents (i) 178,570 shares issuable to Mr. Jensen for each of the fiscal years ending June 30, 2008 and June 30 2009 pursuant to the Long-Term Equity Incentive Program; and (ii) 140,000 shares issuable to Mr. Jensen upon the occurrence of a USA Transaction pursuant to the Amended and Restated Employment and Non-competition Agreement executed by the Company and Mr. Jensen on May 11, 2006.
- (2) Represents 53,713 shares issuable to Mr. Herbert for the fiscal year 2008, and 53,714 shares issuable for the fiscal year ending June 30, 2009 pursuant to the Company's Long-Term Equity Incentive Program.
- (3) Represents 21,663 shares issuable to Mr. DeMedio for the fiscal year 2008, and 21,664 shares issuable for the fiscal year ending June 30, 2009 pursuant to the Company's Long-Term Equity Incentive Program.

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the fiscal year 2007, Steven Katz and William Van Alen, Jr., served as members of the Compensation Committee of our Board of Directors. No member of the Compensation Committee was an employee or former employee of our company or any of our subsidiaries, or had any relationship with us requiring disclosure herein.

During the last fiscal year, none of our executive officers served as: (i) a member of the compensation committee (or other committee of the board of directors performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served on our Compensation Committee; (ii) a director of another entity, one of whose executive officers served on our Compensation Committee; or (iii) a member of the compensation committee (or other committee of the board of directors performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served as a director on our Board of Directors.

## COMPENSATION OF DIRECTORS

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

### Director Compensation Table

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

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

(1) Appointed a Director on March 22, 2007

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

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

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

#### PRINCIPAL SHAREHOLDERS

#### COMMON STOCK

The following table sets forth, as of January 2, 2008, the beneficial ownership of the Common Stock of each of the Company's directors and executive officers, the other employees named in the summary compensation table set forth above, as well as by the Company's directors and executive officers as a group. Except as set forth below, the Company is not aware of any beneficial owner of more than five percent of the Common Stock. Except as otherwise indicated, the Company believes that the beneficial owners of the Common Stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable:

Name and Address of Beneficial Owner(1)	Number of Shares of Common Stock Beneficially Owned	Percent of Class(2)
George R. Jensen, Jr. 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355	275,331(3)	1.65%
Stephen P. Herbert 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355	120,738(4)	*
David M. DeMedio 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355	29,508(5)	*
Douglas M. Lurio 2005 Market Street, Suite 3320 Philadelphia, Pennsylvania 19103	16,030(6)	*
Steven Katz 440 South Main Street Milltown, New Jersey 08850	15,350(7)	*

William L. Van Alen, Jr. P.O. Box 727 Edgemont, Pennsylvania 19028	53,773(8)	*
Joel Brooks 303 George Street, Suite 420 New Brunswick, New Jersey 08901	0	*
Stephen W. McHugh 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355	3,000(9)	*
John McLaughlin 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355	500	*
Cary Sagady 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355	0	*
S.A.C. Capital Advisors LLC 72 Cummings Point Road Stamford, CT 06902	1,950,426(10)	11.70%
Wellington Management Company, LLP 75 State Street Boston, Massachusetts 02109	1,810,000(11)	10.86%
All Directors and Executive Officers as a Group (8 persons)	513,730	3.08%

\*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 Series A Preferred Stock, or shares of Common Stock issuable upon exercise of warrants and options currently exercisable, or exercisable within 60 days of January 2, 2008, are deemed to be beneficially owned for purposes hereof.

(2) On January 2, 2008 there were 14,915,557 shares of Common Stock and 520,392 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 Series A Preferred Stock have been converted into 5,203 shares of Common Stock, and that all of the options to acquire Common Stock which have been issued and are fully vested as of January 2, 2008 (or within 60-days of January 2, 2008) have been converted into 177,808 shares of Common Stock. For purposes of computing such percentages it has also been assumed that all of the remaining Common Stock Warrants have been exercised for 1,591,735 shares of Common Stock; and that all of the accrued and unpaid dividends on the Series A Preferred Stock as of January 2, 2008 have been converted into 9,383 shares of Common Stock. Therefore, 16,666,596 shares of Common Stock were treated as issued and outstanding for purposes of computing the percentages under this table. Does not reflect or include the 140,000 shares issuable to Mr. Jensen upon a "USA Transaction".

(3) Includes 2,000 shares of Common Stock beneficially owned by his spouse. Does not include the right granted to Mr. Jensen under his Employment Agreement to receive Common Stock upon the occurrence of a USA Transaction. See "Executive Employment Agreements". Includes 39,366 shares owned by George R. Jensen, Jr. Grantor Retained Unitrust dated July 14, 2003 over which Mr. Jensen retains beneficial ownership. Includes 50,000 shares underlying vested stock options.

(4) Includes 10 shares of Common Stock beneficially owned by his child and 2,500 shares of Common Stock beneficially owned by his spouse. Includes 12,000 shares underlying vested stock options.

(5) Includes 6,917 shares underlying vested stock options.

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

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

(8) Includes 5,333 shares issuable upon the exercise of warrants and 100 shares of Common Stock beneficially owned by his spouse. Includes 12,000 shares underlying vested stock options, and 40 shares issuable upon conversion of shares of Series A Preferred Stock.

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

(10) Based upon a Schedule 13G filed with the Securities and Exchange Commission on March 22, 2007, S.A.C. Capital Advisors, LLC, S.A.C. Capital Management, LLC, S.A.C. Capital Associates, LLC, and Steven A. Cohen, each have shared voting and investment power with respect to such shares. The address of S.A.C. Capital Advisors and Mr. Cohen is as indicated in the table. The address of S.A.C. Capital Management is 540 Madison Avenue, New York, New York, 10023. The address of S.A.C. Capital Associates is P.O. Box 58, Victoria House, The Valley, Anguilla, British West Indies. Each of S.A.C. Capital Advisors, S.A.C. Capital Management and Mr. Cohen disclaim beneficial ownership of these shares. Also includes 283,759 shares purchased by S.A.C. Capital Associates, LLC from the Company pursuant to the October 17, 2007 Securities Purchase Agreement.

(11) Based upon a Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2007, reflecting the beneficial ownership of our Common Stock by Wellington Management Company, LLP, which has shared voting authority over 484,750 shares and shared dispositive power over 942,500 shares. Does not include 75,000 shares underlying warrants that were not reflected in the Schedule 13G/A. Also includes 867,500 shares purchased from the Company by Wellington Management Company, LLP pursuant to the October 17, 2007 Securities Purchase Agreement.

## **PREFERRED STOCK**

As of January 2, 2008, there were no shares of Preferred Stock that were beneficially owned by the Company's directors, executive officers, or the other employees named in the Summary Compensation Table set forth above except for our Director, Mr. William L. Van Alen, Jr., who beneficially owns 4,000 shares of Series A Convertible Preferred Stock.

## CERTAIN TRANSACTIONS

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

## SELLING SHAREHOLDERS

The shares of common stock being offered by the selling shareholder are those previously issued to the selling shareholder under the March 14, 2007 Securities Purchase Agreement, those issuable to the selling shareholder upon exercise of the warrants issued to the selling shareholder under the March 14, 2007 Securities Purchase Agreement, and the shares previously issued to the selling shareholder under the October 17, 2007 Securities Purchase Agreement. For additional information regarding the issuances of common stock and the warrants, see "Other Events" above. We are registering the shares of common stock in order to permit the selling shareholder to offer the shares for resale from time to time. Except for the ownership of the shares of common stock and the warrants issued pursuant to the above-mentioned Securities Purchase Agreements, the selling shareholder has not had any material relationship with us within the past three years.

The table below lists the selling shareholder and other information regarding the beneficial ownership of the shares of common stock by the selling shareholder. The second column lists the number of shares of common stock beneficially owned by the selling shareholder, based on its ownership of the shares of common stock and the warrants, as of the date of this prospectus assuming exercise of the warrants held by the selling stockholders on that date, without regard to any limitations on exercise.

The third column lists the shares of common stock being offered by this prospectus by the selling shareholder.

The fourth column assumes the sale of all of the shares offered by the selling shareholder pursuant to this prospectus.

Under the terms of the warrants, the selling stockholder may not exercise the warrants, to the extent such exercise would cause the selling shareholder, together with its affiliates, to beneficially own a number of shares of common stock which would exceed 9.99% of our then outstanding shares of common stock following such exercise, excluding for purposes of such determination shares of common stock issuable upon exercise of the warrants which have not been exercised. The number of shares in the second column does not reflect this limitation.

The selling shareholder may sell all, some or none of their shares in this offering. See "Plan of Distribution."

<u>Name of Selling Stockholder</u>	<u>Number of Shares of Common Stock Owned Prior to Offering</u>	<u>Maximum Number of Shares of Common Stock to be Sold Pursuant to this Prospectus</u>	<u>Number of Shares of Common Stock Owned After Offering</u>
S.A.C. Capital Associates, LLC (1)	2,783,759(2)	2,854,381(2)	0

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

(2) As of the date of this prospectus and as reflected in column two above, the selling shareholder owns 1,950,426 shares and warrants to purchase up to 833,333 shares. Pursuant to the March 14, 2007 registration rights agreement between us and the selling shareholder, and as reflected in column three above, we agreed to register an additional 70,622 shares in order to provide for the maximum additional number of shares that may be issuable under the warrant, or an aggregate of 903,955 shares.

### MARKET FOR COMMON STOCK

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

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

<u>Year ended June 30, 2008</u>		
	<u>High</u>	<u>Low</u>
First Quarter (through September 30, 2007)	\$ 10.70	\$ 7.65
Second Quarter (through December 31, 2007)	\$ 8.84	\$ 4.53
Third Quarter (through March 31, 2008)	\$ 5.99	\$ 2.90
 <u>Year ended June 30, 2007</u>		
First Quarter (through September 30, 2006)	\$ 6.30	\$ 6.00
Second Quarter (through December 31, 2006)	\$ 7.65	\$ 4.90
Third Quarter (through March 31, 2007)	\$ 9.01	\$ 5.50
Fourth Quarter (through June 30, 2007)	\$ 12.75	\$ 7.71
 <u>Year ended June 30, 2006</u>		
First Quarter (through September 30, 2005)	\$ 16.80	\$ 12.00
Second Quarter (through December 31, 2005)	\$ 13.10	\$ 8.50
Third Quarter (through March 31, 2006)	\$ 14.00	\$ 10.10
Fourth Quarter (through June 30, 2006)	\$ 8.95	\$ 6.50



On May 31, 2008 there were 628 record holders of the Common Stock and 488 record holders of the Preferred Stock.

The holders of the Common Stock are entitled to receive such dividends as the Board of Directors of the Company may from time to time declare out of funds legally available for payment of dividends. Through the date hereof, no cash dividends have been declared on the Company's Common Stock or Preferred Stock. No dividend may be paid on the Common Stock until all accumulated and unpaid dividends on the Preferred Stock have been paid. As of May 31, 2008, such accumulated unpaid dividends amounted to \$9,773,300.

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

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

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

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

In July 2003 the Company and the Company's Chief Executive Officer (CEO) amended the terms of his employment agreement. Under the terms of the previous Executive Employment Agreement, the CEO would have been granted seven percent (non-dilutive) of all the then issued and outstanding shares of the Company's Common Stock in the event a "USA Transaction" (as defined) occurs, which among other events includes a change in control of the Company. The amended terms of the Executive Employment Agreement, eliminated the seven percent (non-dilutive) right to receive Common Stock upon a "USA Transaction", and granted the CEO an aggregate of 140,000 shares of Common Stock in the event a "USA Transaction" occurs. In exchange for the amendment of these terms, the Company issued an aggregate of 105,000 shares of its Common Stock to the CEO. In connection with this amendment, the CEO also entered into a lock-up agreement pursuant to which he shall not sell 25,000 of these shares for a one-year period and 80,000 of these shares for a two-year period. The CEO will not be required to pay any additional consideration for these shares of Common Stock. At the time of a "USA Transaction", all of the 140,000 shares to be issued to the CEO in connection with this amendment are automatically deemed to be issued and outstanding, and will be entitled to be treated as any other issued and outstanding shares of Common Stock. The right to receive the shares is irrevocable and fully vested, and the rights have no expiration date and will not be affected by the termination of the CEO's employment with the Company for any reason whatsoever.

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

As of March 31, 2008, shares of Common Stock reserved for future issuance were as follows:

- o 161,875 shares issuable upon the exercise of stock options at exercise prices ranging from \$7.50 to \$20 per share
- o 1,591,735 shares issuable upon the exercise of common stock warrants at exercise prices ranging from \$6.40 to \$20 per share
- o 14,977 shares issuable upon the conversion of outstanding Preferred Stock and cumulative Preferred Stock dividends
- o 672,958 shares issuable under the Long-Term Equity Incentive Program adopted in February 2007
- o 300,000 shares issuable under the 2008 Stock Incentive Plan adopted in February 2008
- o 73,287 shares issuable under the 2007-A Stock Compensation Plan; and
- o 140,000 shares issuable to Mr. Jensen under his employment agreement upon the occurrence of a USA Transaction.

#### **PLAN OF DISTRIBUTION**

We are registering the shares of common stock previously issued and the shares of common stock issuable upon exercise of the warrants to permit the resale of these shares of common stock by the holders of the common stock and warrants from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling shareholder of the shares of common stock. We will bear all fees and expenses incident to our obligation to register the shares of common stock.

The selling shareholder may sell all or a portion of the shares of common stock beneficially owned by it and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of common stock are sold through underwriters or broker-dealers, the selling shareholder will be responsible for underwriting discounts or commissions or agent's commissions. The shares of common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale, or at negotiated prices. These sales may be effected in transactions:

- which may involve crosses or block transactions;
- on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on these exchanges or systems or in the over-the-counter market;
- through the writing of options, whether such options are listed on an options exchange or otherwise;
- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales;
- sales pursuant to Rule 144;
- broker-dealers may agree with the selling security holders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and

- any other method permitted pursuant to applicable law.

If the selling shareholder effects such transactions by selling shares of common stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling shareholder or commissions from purchasers of the shares of common stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the shares of common stock or otherwise, the selling shareholder may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the shares of common stock in the course of hedging in positions they assume. The selling shareholder may also sell shares of common stock short and deliver shares of common stock covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. The selling shareholder may also loan or pledge shares of common stock to broker-dealers that in turn may sell such shares.

The selling shareholder may pledge or grant a security interest in some or all of the warrants or shares of common stock owned by it and, if it defaults in the performance of its secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933, as amended, amending, if necessary, the list of selling shareholders to include the pledgee, transferee or other successors in interest as selling shareholder under this prospectus. The selling shareholder also may transfer and donate the shares of common stock in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling shareholder and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act of 1933. At the time a particular offering of the shares of common stock is made, a prospectus supplement, if required, will be distributed which will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling shareholder and any discounts, commissions or concessions allowed or reallocated or paid to broker-dealers.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling shareholder will sell any or all of the shares of common stock registered pursuant to the shelf registration statement, of which this prospectus forms a part.

The selling shareholder and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without limitation, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of common stock by the selling shareholder and any other participating person. Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

We will pay all expenses of the registration of the shares of common stock pursuant to the registration rights agreement, estimated to be \$35,000 in total, including, without limitation, Securities and Exchange Commission filing fees and expenses of compliance with state securities or "blue sky" laws; provided, however, that the selling shareholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling shareholder against liabilities, including some liabilities under the Securities Act of 1933, in accordance with the registration rights agreements, or the selling shareholder will be entitled to contribution. We may be indemnified by the selling shareholder against civil liabilities, including liabilities under the Securities Act of 1933, that may arise from any written information furnished to us by the selling shareholder specifically for use in this prospectus, in accordance with the related registration rights agreement, or we may be entitled to contribution.

Once sold under the shelf registration statement, of which this prospectus forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

## DESCRIPTION OF SECURITIES

### GENERAL

We are authorized to issue up to 640,000,000 shares of common stock, no par value, and 1,800,000 shares of undesignated preferred stock. As of the date hereof, 900,000 preferred shares have been designated as series A convertible preferred stock, no par value. As of March 31, 2008, there were 15,138,470 shares of common stock issued and outstanding and 520,392 shares of series A preferred stock issued and outstanding which are convertible into 5,203 shares of common stock. Through March 31, 2008, a total of 590,758 shares of preferred stock have been converted into 6,671 shares of Common Stock and \$2,718,764 of accrued and unpaid dividends thereon have been converted into 2,919 shares of Common Stock.

## COMMON STOCK

The holder of each share of common stock:

- § is entitled to one vote on all matters submitted to a vote of the shareholders of USA, including the election of directors. There is no cumulative voting for directors;
- § does not have any preemptive rights to subscribe for or purchase shares, obligations, warrants, or other securities of USA; and
- § is entitled to receive such dividends as the Board of Directors may from time to time declare out of funds legally available for payment of dividends.

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

## SERIES A CONVERTIBLE PREFERRED STOCK

The holders of shares of Series A preferred stock:

- § have the number of votes per share equal to the number of shares of common stock into which each such share is convertible (i.e., 100 shares of series A preferred stock equals 1 vote);
- § are entitled to vote on all matters submitted to the vote of the shareholders of USA, including the election of directors; and
- § are entitled to an annual cumulative cash dividend of \$1.50 per annum, payable when, as and if declared by the Board of Directors.

The record dates for payment of dividends on the Series A Preferred Stock are February 1 (\$0.75) and August 1 (\$0.75) of each year. Any and all accumulated and unpaid cash dividends on the Series A Preferred Stock must be declared and paid prior to the declaration and payment of any dividends on the Common Stock. Any unpaid and accumulated dividends will not bear interest. As of March 31, 2008, such accumulated unpaid dividends amounted to \$9,773,300.

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

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

### **COMMON STOCK PURCHASE WARRANTS**

As of March 31, 2008, there were 1,591,735 Common Stock warrants outstanding, all of which were exercisable at exercise prices ranging from \$6.40 to \$20 per share.

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

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

### **SHARES ELIGIBLE FOR FUTURE SALE**

Of the 15,138,470 shares of common stock issued and outstanding on March 31, 2008, all are freely transferable without further registration under the Act (other than shares held by "affiliates" of the Company). As of March 31, 2008, there were 520,392 shares of preferred stock issued and outstanding, all of which are freely transferable without further registration under the Act (other than shares held by "affiliates" of USA).

The shares of preferred stock issued and outstanding as of March 31, 2008, are convertible into 5,203 shares of common stock all of which would be fully transferable without further registration under the Act (other than shares held by "affiliates" of USA).

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

In general, under Rule 144 under the Securities Act of 1933, as in effect on the date of this prospectus, a person who is not one of our affiliates at any time during the three months preceding a sale, and who has beneficially owned shares of our common stock for at least six months, would be entitled to sell an unlimited number of shares of our common stock provided current public information about us is available and, after owning such shares for at least one year, would be entitled to sell an unlimited number of shares of our common stock without restriction. Our affiliates who have beneficially owned shares of our common stock for at least six months are entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1% of the number of shares of our common stock then outstanding, which was equal to approximately 151,385 shares as of March 31, 2008; or
- the average weekly trading volume of our common stock on the Nasdaq Global Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Sales under Rule 144 by our affiliates are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

#### **LIMITATION OF LIABILITY; INDEMNIFICATION**

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

#### **TRANSFER AGENT AND REGISTRAR**

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

#### **LEGAL MATTERS**

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



## EXPERTS

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

## WHERE YOU CAN FIND ADDITIONAL INFORMATION

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

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

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

**FINANCIAL STATEMENTS**

**USA TECHNOLOGIES, INC.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

Board of Directors and Shareholders of  
USA Technologies, Inc.

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

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

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

*/s/ Goldstein Golub Kessler LLP*

New York, NY  
September 26, 2007

**USA Technologies, Inc.**  
**Consolidated Balance Sheets**

	June 30		March 31
	2007	2006	2008
			(Unaudited)
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 5,163,844	\$ 2,866,801	\$ 6,814,731
Available-for-sale securities	6,350,000	-	7,575,000
Accounts receivable, less allowance for uncollectible accounts of \$142,000, \$229,000 and \$129,000, respectively	2,269,193	1,022,114	2,250,227
Finance receivables	330,692	418,184	379,620
Inventory, net	3,033,792	1,410,812	2,258,046
Prepaid expenses and other current assets	206,508	209,108	489,792
<b>Total current assets</b>	<b>17,354,029</b>	<b>5,927,019</b>	<b>19,767,416</b>
Available-for-sale securities	-	-	6,575,000
Finance receivables, less current portion	279,324	289,389	518,222
Property and equipment, net	1,876,754	1,119,304	2,054,877
Intangibles, net	7,122,032	8,358,632	6,194,582
Goodwill	7,663,208	7,663,208	7,663,208
Other assets	196,150	61,914	201,195
<b>Total assets</b>	<b>\$ 34,491,497</b>	<b>\$ 23,419,466</b>	<b>\$ 42,974,500</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 3,945,894	\$ 2,448,611	\$ 3,285,408
Accrued expenses	1,431,652	2,012,938	2,266,230
Current obligations under long-term debt	514,302	89,917	656,454
Convertible senior notes	-	851,486	-
<b>Total current liabilities</b>	<b>5,891,848</b>	<b>5,402,952</b>	<b>6,208,092</b>
Convertible senior notes, less current portion	-	6,805,403	-
Long-term debt, less current portion	515,443	34,047	522,346
<b>Total liabilities</b>	<b>6,407,291</b>	<b>12,242,402</b>	<b>6,730,438</b>
<b>Commitments and contingencies (Note 14)</b>			
<b>Shareholders' equity:</b>			
<b>Preferred stock, no par value:</b>			
Authorized shares- 1,800,000			
Series A convertible preferred-Authorized shares- 900,000			
Issued and outstanding shares- 520,392, 521,542, and 520,392, respectively (liquidation preference of \$14,196,632, \$13,441,681, and \$14,586,926, respectively)	3,686,218	3,694,360	3,686,218
<b>Common stock, no par value:</b>			
Authorized shares- 640,000,000			
Issued and outstanding shares- 11,810,849, 6,372,175, and 15,138,470, respectively	172,822,868	138,110,126	193,645,925
Accumulated deficit	(148,424,880)	(130,627,422)	(161,088,081)
<b>Total shareholders' equity</b>	<b>28,084,206</b>	<b>11,177,064</b>	<b>36,244,062</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 34,491,497</b>	<b>\$ 23,419,466</b>	<b>\$ 42,974,500</b>

See accompanying notes.

**USA Technologies, Inc.**  
**Consolidated Statements of Operations**

	Year ended June 30			Nine months ended March 31	
	2007	2006	2005	2008	2007
Revenues:	(Unaudited)				
Equipment sales	\$ 7,454,076	\$ 5,198,360	\$ 3,535,064	\$ 8,501,722	\$ 5,604,573
License and transaction fees	1,703,936	1,216,443	1,142,925	2,576,849	1,106,460
<b>Total revenues</b>	<b>9,158,012</b>	<b>6,414,803</b>	<b>4,677,989</b>	<b>11,078,571</b>	<b>6,711,033</b>
Cost of equipment	6,442,627	3,549,450	2,430,649	6,592,088	4,610,096
Cost of services	1,369,152	855,077	1,048,024	2,028,675	883,272
<b>Gross profit</b>	<b>1,346,233</b>	<b>2,010,346</b>	<b>1,199,316</b>	<b>2,457,808</b>	<b>1,217,665</b>
Operating expenses:					
Selling, general and administrative	14,706,156	12,092,552	11,989,403	14,226,973	10,406,775
Depreciation and amortization	1,748,653	1,699,593	1,600,120	1,497,768	1,284,771
<b>Total operating expenses</b>	<b>16,454,809</b>	<b>13,792,145</b>	<b>13,589,523</b>	<b>15,724,741</b>	<b>11,691,546</b>
<b>Operating loss</b>	<b>(15,108,576)</b>	<b>(11,781,799)</b>	<b>(12,390,207)</b>	<b>(13,266,933)</b>	<b>(10,473,881)</b>
Other income (expense):					
Interest income	315,827	99,776	61,068	716,120	164,817
Other loss	(4,759)	(16,087)	(42,300)	-	-
Legal loss contingency		(270,000)	-	-	-
Interest expense:					
Coupon or stated rate	(746,578)	(1,365,860)	(1,256,999)	(112,388)	(771,479)
Non-cash interest and amortization of debt discount	(2,238,372)	(1,513,106)	(1,870,752)	-	(1,096,317)
<b>Total interest expense</b>	<b>(2,984,950)</b>	<b>(2,878,966)</b>	<b>(3,127,751)</b>	<b>(112,388)</b>	<b>(1,867,796)</b>
<b>Total other income (expense)</b>	<b>(2,673,882)</b>	<b>(3,065,277)</b>	<b>(3,108,983)</b>	<b>603,732</b>	<b>(1,702,979)</b>
<b>Net loss</b>	<b>(17,782,458)</b>	<b>(14,847,076)</b>	<b>(15,499,190)</b>	<b>(12,663,201)</b>	<b>(12,176,860)</b>
Cumulative preferred dividends	(781,451)	(783,289)	(784,113)	(780,588)	(781,451)
Loss applicable to common shares	\$ (18,563,909)	\$ (15,630,365)	\$ (16,283,303)	\$ (13,443,789)	\$ (12,958,311)
<b>Loss per common share (basic and diluted)</b>	<b>\$ (2.13)</b>	<b>\$ (3.15)</b>	<b>\$ (4.18)</b>	<b>\$ (0.97)</b>	<b>\$ (1.65)</b>
Weighted average number of common shares outstanding (basic and diluted)	8,702,523	4,965,501	3,894,204	13,837,206	7,770,543

See accompanying notes.

**USA Technologies, Inc.**  
**Consolidated Statements of Shareholders' Equity**

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.



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

	Series A Convertible Preferred Stock	Common Stock	Accumulated Other Subscriptions Receivable	Comprehensive Income	Accumulated Deficit	Total
Issuance of 886,908 shares of common stock to an accredited investor at varying prices per share, less issuance costs of \$1,410	\$ --	\$ 5,671,847	\$ --	\$ --	\$ --	\$ 5,671,847
Issuance of 2,142,871 shares of common stock to an accredited investor at \$7.00 per share, less issuance costs of \$1,012,597		13,987,500				13,987,500
Exercise of 58,543 warrants at \$6.40 per share	--	374,675	--	--	--	374,675
Retirement of 650 shares of common stock	--	(5,600)	--	--	--	(5,600)
Issuance of 14,700 shares of common stock to employees under the 2007-A Stock Compensation Plan	--	138,704	--	--	--	138,704
Reclassification of charges from Long-Term Equity Incentive Program for Fiscal Year 2007 to a share-based liability until settlement	--	(599,311)	--	--	--	(599,311)
Issuance of 225,249 shares of common stock for settlement of the Long-Term Equity Incentive Program liability for Fiscal Year 2007	--	1,189,222	--	--		1,189,222
Charges incurred in connection with stock options	--	66,020	--	--	--	66,020
Net loss	--	--	--	--	(12,663,201)	(12,663,201)
Balance, March 31, 2008 (unaudited)	\$ 3,686,218	\$ 193,645,925	\$ --	\$ --	\$ (161,088,081)	\$ 36,244,062

See accompanying notes.

**USA Technologies, Inc.**  
**Consolidated Statements of Cash Flows**

	Year ended June 30			Nine months ended March 31	
	2007	2006	2005	2008 (Unaudited)	2007 (Unaudited)
<b>OPERATING ACTIVITIES:</b>					
Net loss	\$ (17,782,458)	\$ (14,847,076)	\$ (15,499,190)	\$ (12,663,201)	\$ (12,176,860)
Adjustment to reconcile net loss to net cash used in operating activities:					
Charges incurred in connection with the vesting and issuance of common stock for employee compensation	1,500,288	79,195	107,670	1,157,540	928,843
Charges incurred in connection with stock option compensation	362,903	875,556	-	66,020	283,028
Non-cash interest and amortization of debt discount	2,238,372	1,513,106	1,870,752	-	1,096,317
Charges incurred in connection with the issuance of common stock for legal settlements	18,000	-	-	-	288,000
Depreciation	510,678	462,993	363,520	570,318	357,321
Amortization	1,236,600	1,236,600	1,236,600	927,450	927,450
Other loss	-	17,144	42,300	-	-
Gain on repayment of senior notes	(44,285)	-	-	-	(44,285)
Bad debt expense (recovery)	8,806	130,778	(23,215)	137,212	45,327
Changes in operating assets and liabilities:					
Accounts receivable	(1,255,885)	(408,851)	50,895	(118,246)	(1,693,169)
Finance receivables	97,557	(182,256)	(221,181)	(287,826)	8,486
Inventory	(1,622,980)	286,424	10,448	775,746	(538,104)
Prepaid expenses and other assets	(131,636)	37,711	(85,541)	(84,552)	41,935
Accounts payable	1,497,283	(817,317)	336,437	(660,486)	(132,754)
Accrued expenses	(311,286)	533,586	(90,016)	405,653	(288,645)
Net cash used in operating activities	<u>(13,678,043)</u>	<u>(11,082,407)</u>	<u>(11,900,521)</u>	<u>(9,774,372)</u>	<u>(10,897,110)</u>
<b>INVESTING ACTIVITIES:</b>					
Purchase of property and equipment, net	(526,615)	(842,470)	(248,043)	(528,110)	(334,454)
Purchase of available-for-sale securities	(7,000,000)	-	-	(39,675,000)	(7,000,000)
Cash received from the sale of available-for-sale securities	650,000	19,243	-	31,875,000	-
Cash received from the sale of assets held for sale	-	-	23,700	-	-
Net cash used in investing activities	<u>(6,876,615)</u>	<u>(823,227)</u>	<u>(224,343)</u>	<u>(8,328,110)</u>	<u>(7,334,454)</u>

See accompanying notes.

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

	Year ended June 30			Nine months ended March 31	
	2007	2006	2005	2008 (Unaudited)	2007 (Unaudited)
<b>FINANCING ACTIVITIES:</b>					
Net proceeds from the issuance of common stock and the exercise of common stock warrants	\$ 30,989,108	\$ 14,114,612	\$ 8,004,436	\$ 20,028,422	\$ 26,967,182
Collection of subscriptions receivable	-	35,723	300,000	-	3,234
Net proceeds from the issuance of senior notes	-	1,314,944	3,305,790	-	-
Proceeds from the issuance of long-term debt	470,000	-	-	332,740	470,000
Repayment of senior notes	(8,301,676)	(2,654,821)	(143,887)	-	(6,198,476)
Repayment of long-term debt	(305,731)	(135,904)	(262,808)	(607,793)	(177,151)
Net cash provided by financing activities	<u>22,851,701</u>	<u>12,674,554</u>	<u>11,203,531</u>	<u>19,753,369</u>	<u>21,064,789</u>
Net increase (decrease) in cash and cash equivalents	2,297,043	768,920	(921,333)	1,650,887	2,833,225
Cash and cash equivalents at beginning of period	2,866,801	2,097,881	3,019,214	5,163,844	2,866,801
Cash and cash equivalents at end of period	<u>\$ 5,163,844</u>	<u>\$ 2,866,801</u>	<u>\$ 2,097,881</u>	<u>\$ 6,814,731</u>	<u>\$ 5,700,026</u>
<b>Supplemental disclosures of cash flow information:</b>					
Cash paid for interest	<u>\$ 1,013,339</u>	<u>\$ 1,430,115</u>	<u>\$ 1,187,833</u>	<u>\$ 126,962</u>	<u>\$ 899,272</u>
Equipment and software under capital lease	<u>\$ 741,513</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 220,331</u>	<u>\$ 436,173</u>
Prepaid insurance financed with long-term debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 203,777</u>	<u>\$ -</u>
Purchases of equipment with long-term debt	<u>\$ -</u>	<u>\$ 54,900</u>	<u>\$ 197,450</u>	<u>\$ -</u>	<u>\$ -</u>
Conversion of convertible preferred stock to common stock	<u>\$ 8,142</u>	<u>\$ 8,496</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,142</u>
Conversion of cumulative preferred dividends to common stock	<u>\$ 15,000</u>	<u>\$ 18,320</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,000</u>
Subscriptions receivable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,723</u>	<u>\$ -</u>	<u>\$ 340,000</u>
Conversion of senior notes to common stock	<u>\$ 1,549,300</u>	<u>\$ 667,469</u>	<u>\$ 931,208</u>	<u>\$ -</u>	<u>\$ 500</u>
Cancellation of common stock in connection with Bayview acquisition	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (322,000)</u>	<u>\$ -</u>	<u>\$ -</u>
Common stock issued to settle lawsuit	<u>\$ 270,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 288,000</u>
Beneficial conversion feature related to senior notes	<u>\$ -</u>	<u>\$ 552,263</u>	<u>\$ 1,944,845</u>	<u>\$ -</u>	<u>\$ -</u>
Debt discount related to issuance of purchase rights	<u>\$ -</u>	<u>\$ 428,941</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes.

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

1. BUSINESS

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

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

2. ACCOUNTING POLICIES

**INTERIM FINANCIAL INFORMATION**

The consolidated financial statements and disclosures included herein for the nine months ended March 31, 2008 and 2007 are unaudited. These financial statements and disclosures have been prepared by the Company in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period March 31, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2008.

**CONSOLIDATION**

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

**USE OF ESTIMATES**

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

**RECLASSIFICATION**

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

**CASH EQUIVALENTS**

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

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

## 2. ACCOUNTING POLICIES (CONTINUED)

### AVAILABLE-FOR-SALE SECURITIES

The Company accounts for investments in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Management determines the appropriate classifications of securities at the time of purchase and reevaluates such designation as of each balance sheet date. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported as a separate component of shareholders' equity in accumulated other comprehensive income (loss). If the investment sustains an other-than-temporary decline in fair value, the investment is written down to its fair value by a charge to earnings.

As of March 31, 2008, available-for-sale securities consisted of \$14,150,000 par value of auction rate securities ("ARS") that were purchased during January 2008. The Company's ARS are long-term variable rate securities whose dividend rates are reset every seven days through a "dutch auction" conducted by investment banks. We have the option to participate in the auction and sell our ARS to prospective buyers at par value. Our ARS are all AAA or Aaa rated, and represent preferred stock of closed-end investment firms. Our ARS have no fixed maturity dates.

Until February 2008, the auction process had allowed investors to obtain liquidity if so desired by selling the securities at their par values on the weekly auction date. However, beginning the week of February 11, 2008, the auctions for our ARS failed as a result of negative overall market conditions, meaning there were not enough buyers to purchase the amount of securities available for sale at auction. The result of a failed auction, which does not signify a default by the issuer, is that the ARS continue to pay dividends in accordance with their terms, but we are not able to liquidate any of these securities until these securities are redeemed by the issuer, or until there is a successful auction, or until such time as other markets for these investments develop.

As of March 31, 2008, we have classified \$7,575,000 of our ARS as current assets as we have received a notice of redemption at par value from the issuer subsequent to March 31, 2008, and classified the remaining \$6,575,000 of our ARS as non-current assets. Although we have uncertainty with regard to the short-term liquidity of these securities, we continue to believe that the par value represents the fair value of these investments. We currently anticipate that we will be able to realize the par value of our ARS either through redemption by the issuer, successful auction, or through a buyer outside of the auction process and believe that we have the ability to hold these securities for a sufficient period of time for us to realize the par value of these securities. As such, there was no unrealized loss recorded as of March 31, 2008 in connection with our ARS investments.

### ACCOUNTS RECEIVABLE

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

### FINANCE RECEIVABLES

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

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

## 2. ACCOUNTING POLICIES (CONTINUED)

### INVENTORY

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

### PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized on the straight-line basis over the lesser of the estimated useful life of the asset or the respective lease term.

### GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of cost over fair value of the net assets purchased in acquisitions. The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). Under FAS 142, goodwill is not amortized to earnings, but instead is subject to periodic testing for impairment. The Company tests goodwill for impairment using a two-step process. The first step screens for potential impairment, while the second step measures the amount of impairment. The Company uses a discounted cash flow analysis to complete the first step in this process. Testing for impairment is to be done at least annually and at other times if events or circumstances arise that indicate that impairment may have occurred. The Company has selected April 1 as its annual test date. The Company has concluded there has been no impairment of goodwill as a result of its testing on April 1, 2005, April 1, 2006 and April 1, 2007. During the nine months ended March 31, 2008 (unaudited), no events or circumstances arose indicating that an impairment of goodwill may have occurred.

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

### IMPAIRMENT OF LONG LIVED ASSETS

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets" ("FAS 144"), the Company reviews its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amount of an asset or group of assets exceeds its net realizable value, the asset will be written down to its fair value. In the period when the plan of sale criteria of FAS 144 are met, long-lived assets are reported as held for sale, depreciation and amortization cease, and the assets are reported at the lower of carrying value or fair value less costs to sell.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

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

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

## 2. ACCOUNTING POLICIES (CONTINUED)

### CONCENTRATION OF CREDIT RISK

Financial instruments that subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and accounts and finance receivables. The Company maintains cash and cash equivalents with various financial institutions. Approximately 41% and 39% of the Company's accounts and finance receivables at June 30, 2007 and 2006, respectively, were concentrated with two customers each year and 58% (unaudited) as of March 31, 2008 were concentrated with two customers. Approximately 40%, 29% and 11% of the Company's revenues for the year ended June 30, 2007, 2006 and 2005, respectively, were concentrated with one, two (19% with one customer and 10% with another customer), and one customer, respectively. Approximately 56% (40% with one customer and 16% with another customer) (unaudited) and 50% (43% with one customer and 7% with another customer) (unaudited) of the Company's revenues for the nine months ended March 31, 2008 and 2007, respectively, were concentrated with two customers. The Company's customers are principally located in the United States.

### REVENUE RECOGNITION

Revenue from the sale of equipment is recognized on the terms of freight-on-board shipping point, or upon installation and acceptance of the equipment if installation services are purchased for the related equipment. Transaction processing revenue is recognized upon the usage of the Company's cashless payment and control network. License fees for access to the Company's devices and network services are recognized on a monthly basis. Product revenues are recognized for the sale of products from Company owned vending machines when there is purchase and acceptance of product by the vending customer. In all cases, revenue is only recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed and determinable, and collection of the resulting receivable is reasonably assured. The Company estimates an allowance for product returns at the date of sale.

### WARRANTY COSTS

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

### SHIPPING AND HANDLING

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

### RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are expensed as incurred. Research and development expenses, which are included in general and administrative and compensation expense in the consolidated statements of operations, were approximately \$1,355,000, \$974,000, and \$1,364,000 for the years ended June 30, 2007, 2006 and 2005, respectively and \$405,000 (unaudited) and \$992,000 (unaudited) for the nine months ended March 31, 2008 and 2007, respectively.

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

## 2. ACCOUNTING POLICIES (CONTINUED)

### ACCOUNTING FOR STOCK OPTIONS

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

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

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

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

There were no common stock options granted during the year ended June 30, 2007 or the quarter ended March 31, 2008. The Company recorded stock compensation expense of \$1,500,288, \$79,195 and \$107,670 related to common stock grants and vesting of shares previously granted to employees and \$362,903, \$875,556 and \$0 related to the vesting of common stock options during the year ended June 30, 2007, 2006 and 2005, respectively. The Company recorded stock compensation expense of \$138,704 (unaudited) and \$803,895 (unaudited) related to common stock grants and vesting of shares previously granted to employees under the 2007-A Stock Compensation Plan and \$66,020 (unaudited) and \$283,028 (unaudited) related to the vesting of common stock options during the nine months ended March 31, 2008 and 2007, respectively. The Company recorded stock compensation expense of \$428,925 (unaudited) and \$124,948 (unaudited) related to the vesting of shares under the Long-term Equity Incentive Program during the nine months ended March 31, 2008 and 2007, respectively.

### INCOME TAXES

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



USA Technologies, Inc.  
Notes to Consolidated Financial Statements

## 2. ACCOUNTING POLICIES (CONTINUED)

### LOSS PER COMMON SHARE

Basic earnings per share is calculated by dividing income (loss) applicable to common shares by the weighted average common shares outstanding for the period. Diluted earnings per share is calculated by dividing income (loss) applicable to common shares by the weighted average common shares outstanding for the period plus the dilutive effect (unless such effect is anti-dilutive) of potential common shares (approximately 2,618,000, 1,081,000 and 1,250,000 shares as of June 30, 2007, 2006 and 2005, respectively). No exercise of stock options (163,000) or stock purchase warrants (1,704,175); or the conversion of preferred stock (5,203) or cumulative preferred dividends (8,992); or the issuance of shares granted under the Long-Term Equity Incentive Program (736,444) was assumed during the fiscal year ended June 30, 2007 because the result would be anti-dilutive. No exercise of stock options or stock purchase warrants, or the conversion of senior notes, preferred stock or cumulative preferred dividends was assumed during the fiscal years ended June 30, 2006 and 2005 or the nine months ended March 31, 2008 (unaudited) and 2007 (unaudited) because the result would be anti-dilutive.

### RECENT ACCOUNTING PRONUCEMENTS

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

## 3. ACQUISITIONS AND INTANGIBLES

### BAYVIEW TECHNOLOGY GROUP, LLC

On July 11, 2003, the Company acquired substantially all of the assets of Bayview. Under the terms of the asset purchase agreement, the Company issued to Bayview 200,000 shares of its restricted Common Stock and cash of \$631,247 to settle an obligation of Bayview. The definitive agreement also provided for the Company to assume certain obligations under a royalty agreement expiring May 31, 2006. Approximately \$0, \$149,000, and \$112,000 of royalty expense was recorded during the years ended June 30, 2007, 2006 and 2005, respectively, in connection with this agreement. In connection with this transaction, the Company also agreed to issue 1,700 shares of its restricted Common Stock to a consultant who provided certain services to the Company in connection with this acquisition.

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

The acquisition cost of Bayview was \$10,030,894, which principally was comprised of the issuance of 200,000 shares of restricted Common Stock valued at \$9,200,000 and a cash payment of \$631,247. The value of the 200,000 shares of Common Stock was determined based on the average market price of the Company's Common Stock over the two-day period before and after the definitive agreement date of July 11, 2003. The purchase price also included acquisition related costs of \$199,647.

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

### 3. ACQUISITIONS AND INTANGIBLES (CONTINUED)

#### BAYVIEW TECHNOLOGY GROUP, LLC (CONTINUED)

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

The acquisition was accounted for using the purchase method and, accordingly, the results of operations of Bayview have been included in the accompanying consolidated statements of operations since the date of acquisition. Results of operations of the Company for year ended June 30, 2004 would not have been significantly different than reported had the acquisition taken place July 1, 2003 as the acquisition occurred on July 11, 2003. Pro-forma combined results for the year ended June 30, 2003 would have been as follows had the acquisition taken place July 1, 2002 - revenues of \$8,487,190; net loss of \$22,478,740; loss applicable to common shares of \$23,272,326; loss per common share (basic and diluted) of \$17.66.

The following table summarizes the final purchase price allocation to reflect the fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	\$ 7,628
Property and equipment	244,704
Intangible assets	9,449,000
Goodwill	329,562
Total assets acquired	<u>\$ 10,030,894</u>

Of the \$9,449,000 of Bayview acquired intangible assets, \$7,424,000 was assigned to patents that are subject to amortization over a 10-year period, \$1,011,000 was assigned to a non-compete agreement that is subject to amortization over a 5-year period and \$1,014,000 was assigned to trademarks and trade names that are not subject to amortization.

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### 3. ACQUISITIONS AND INTANGIBLES (CONTINUED)

#### INTANGIBLE ASSETS

Amortization expense relating to all acquired intangible assets was \$1,236,600, \$1,236,600 and \$1,236,600 during the years ended June 30, 2007, 2006 and 2005, respectively, and \$927,450 (unaudited) and \$927,450 (unaudited) for the nine months ended March 31, 2008 and 2007, respectively. The intangible asset balance and related accumulated amortization consisted of the following:

	March 31, 2008 (Unaudited)		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Intangible assets:			
Trademarks	\$ 2,064,000	\$ (616,875)	\$ 1,447,125
Patents	9,294,000	(4,603,072)	4,690,928
Non-Compete agreement	1,011,000	(954,471)	56,529
Total	<u>\$ 12,369,000</u>	<u>\$ (6,174,418)</u>	<u>\$ 6,194,582</u>
	June 30, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Intangible assets:			
Trademarks	\$ 2,064,000	\$ (538,125)	\$ 1,525,875
Patents	9,294,000	(3,906,022)	5,387,978
Non-Compete agreement	1,011,000	(802,821)	208,179
Total	<u>\$ 12,369,000</u>	<u>\$ (5,246,968)</u>	<u>\$ 7,122,032</u>
	June 30, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Intangible assets:			
Trademarks	\$ 2,064,000	\$ (433,125)	\$ 1,630,875
Patents	9,294,000	(2,976,622)	6,317,378
Non-Compete agreement	1,011,000	(600,621)	410,379
Total	<u>\$ 12,369,000</u>	<u>\$ (4,010,368)</u>	<u>\$ 8,358,632</u>

At March 31, 2008 and June 30, 2007, the expected amortization of the intangible assets is as follows: \$1,240,000 in fiscal year 2008, \$1,030,000 per year in fiscal year 2009 through fiscal year 2012, \$740,000 in fiscal year 2013 and \$22,000 in fiscal year 2014. The weighted average useful life of these intangible assets is 9.55 years at June 30, 2007.

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#### 4. PROPERTY AND EQUIPMENT

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

	Useful Lives	June 30		March 31 2008
		2007	2006	(Unaudited)
Computer equipment and purchased software	3 years	\$ 4,089,137	\$ 3,063,618	\$ 4,625,048
Vending machines and related components	7 years	4,427	4,427	4,427
Control systems	3 years	8,503	79,567	8,503
Furniture and equipment	5-7 years	940,386	738,746	1,033,032
Leasehold improvements	Lesser of life or lease term	118,475	126,007	265,296
Vehicles	5 years	29,066	29,066	29,066
		<u>5,189,994</u>	<u>4,041,431</u>	<u>5,965,372</u>
Less accumulated depreciation		<u>(3,313,240)</u>	<u>(2,922,127)</u>	<u>(3,910,495)</u>
		<u>\$ 1,876,754</u>	<u>\$ 1,119,304</u>	<u>\$ 2,054,877</u>

Assets under capital lease totaled approximately \$977,000 (unaudited), \$741,513 and \$0 as of March 31, 2008, June 30, 2007 and 2006, respectively. Capital lease amortization of approximately \$39,310, \$2,000, \$2,000, \$181,545 (unaudited) and \$0 (unaudited), is included in depreciation expense for the years ended June 30, 2007, 2006 and 2005, and for the nine months ended March 31, 2008 and 2007, respectively.

#### 5. ACCRUED EXPENSES

Accrued expenses consist of the following:

	June 30		March 31 2008
	2007	2006	(Unaudited)
Accrued compensation and related sales commissions	\$ 502,431	\$ 384,256	\$ 619,834
Accrued interest	14,574	381,240	--
Accrued professional fees	213,086	162,051	235,926
Accrued taxes and filing fees	202,428	100,573	377,494
Advanced customer billings	96,264	109,007	433,447
Accrued loss contingency	--	270,000	--
Accrued share-based payment liability	--	--	428,925
Accrued other	402,869	605,811	170,604
	<u>\$ 1,431,652</u>	<u>\$ 2,012,938</u>	<u>\$ 2,266,230</u>

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## 6. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2007, 2006, and 2005 and the nine months ended March 31, 2008 and 2007, the Company incurred approximately \$355,000, \$258,000, \$284,000, \$270,000 (unaudited) and \$266,000 (unaudited) respectively, in connection with legal services provided by a member of the Company's Board of Directors. At June 30, 2007 and 2006 and March 31, 2008, approximately \$33,000, \$28,000 and \$24,000 (unaudited), respectively, of the Company's accounts payable and accrued expenses were due to this Board member. During the year ended June 30, 2005, the Company incurred approximately \$72,600 in connection with consulting services provided by another member of the Company's Board of Directors. At March 31, 2008 and June 30, 2007, 2006 and 2005, approximately \$0 (unaudited), \$0, \$0 and \$73,000, respectively, of the Company's accrued expenses were due to this Board member. During the years ended June 30, 2007, 2006 and 2005, certain Board members and executives participated in various debt or equity offerings of the Company for total investments of approximately \$0, \$53,000, and \$245,000, respectively. There was no participation by Board members in debt or equity offerings during the nine months March 31, 2008 and 2007. As of June 30, 2007, 2006 and 2005, Mr. Illes (see Note 11), held \$0, \$1,000,000 and \$1,000,000 of Senior Notes, respectively.

## 7. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30		March 31 2008 (Unaudited)
	2007	2006	
Capital lease obligations	\$ 677,475	\$ --	\$ 624,758
Loan agreement	318,224	--	447,491
Software licensing and other	34,046	123,964	106,551
	<u>1,029,745</u>	<u>123,964</u>	<u>1,178,800</u>
Less current portion	514,302	89,917	656,454
	<u>\$ 515,443</u>	<u>\$ 34,047</u>	<u>\$ 522,346</u>

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

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

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

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Notes to Consolidated Financial Statements

7. LONG-TERM DEBT (CONTINUED)

During October 2006, the Company entered into a loan agreement with a financial institution bearing interest at 18% and collateralized by \$470,000 of the Finance Receivables. The Company received \$470,000 in proceeds and agreed to make 12 monthly payments of \$25,000 followed by 18 monthly payments of \$15,000, which include interest and principal, from the proceeds received from the Finance Receivables. As of June 30, 2007, \$206,223 and \$121,428 of the current and long-term Finance Receivables, respectively, are collateral for the outstanding balance of the loan, of which \$179,804 and \$138,420 is current and long-term debt, respectively. Including the loan agreements added in July 2007, as listed above, as of March 31, 2008 \$241,053 (unaudited) and \$225,505 (unaudited) of the current and long-term Finance Receivables, respectively, are collateral for the outstanding balance of the loan, of which \$256,188 (unaudited) and \$101,646 (unaudited) is current and long-term debt, respectively.

During August and December 2007, the Company financed the premiums for various insurance policies totaling \$203,777, due in 10 monthly installments at an interest rate of 8%.

During November 2007, the Company entered into a long-term debt agreement for \$93,000 with a financial institution bearing interest at 8.25% that was collateralized by the assets of the Company. The Company agreed to make 84 monthly payments of \$1,467, including interest and principal.

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

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

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

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

USA Technologies, Inc.  
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## 8. INCOME TAXES

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

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

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

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

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

## 9. SENIOR NOTES

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

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

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

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



USA Technologies, Inc.  
Notes to Consolidated Financial Statements

## 9. SENIOR NOTES (CONTINUED)

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

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

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

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

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## 9. SENIOR NOTES (CONTINUED)

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

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

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9. SENIOR NOTES (CONTINUED)

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

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

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

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9. SENIOR NOTES (CONTINUED)

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

	Senior Notes Maturing June 30,	
	2009	2007 (2007-B Senior Notes)
Debt discount and other issuance costs		
Unamortized costs at June 30, 2005	\$ --	\$ (293,230)
Amortization and write off of unamortized costs upon conversions to Common Stock	--	160,890
Unamortized costs at June 30, 2006	\$ --	\$ (132,340)
Amortization and write off of unamortized costs upon conversions to Common Stock	--	132,340
Unamortized costs at June 30, 2007	\$ --	\$ --

Senior Notes reflected in the Consolidated Balance Sheet:

June 30, 2006		
Face amount	\$ 320,000	\$ 983,286
Unamortized costs	--	\$ (132,340)
	\$ 320,000	\$ 851,486
June 30, 2007		
Face amount	\$ --	\$ --
Unamortized costs	--	\$ --
	\$ --	\$ --

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

## 10. PREFERRED STOCK

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

Cumulative unpaid dividends at June 30, 2007 and 2006 and March 31, 2008 amounted to \$8,992,712, \$8,226,261, and \$9,773,300 (unaudited) respectively. Cumulative unpaid dividends are convertible into common shares at \$1,000 per common share at the option of the shareholder. During the years ended June 30, 2007 and 2006 and the nine months ended March 31, 2008, certain holders of the Preferred Stock converted 1,150, 1,200 and 0 (unaudited), respectively, into 11, 12 and 0 (unaudited) shares of Common Stock, respectively. Certain of these shareholders also converted cumulative preferred dividends of \$15,000, \$18,320 and \$0 (unaudited), respectively, into 15, 18 and 0 (unaudited) shares of Common Stock during the years ended June 30, 2007 and 2006 and the nine months ended March 31, 2008, respectively. There were no conversions of preferred stock or cumulative preferred dividends during the year ended June 30, 2005. The Series A Preferred Stock may be called for redemption at the option of the Board of Directors at any time on and after January 1, 1998 for a price of \$11.00 per share plus payment of all accrued and unpaid dividends. No such redemption has occurred as of June 30, 2007, 2006, 2005 or March 31, 2008. In the event of any liquidation, the holders of shares of Series A Preferred Stock issued shall be entitled to receive \$10.00 for each outstanding share plus all cumulative unpaid dividends. If funds are insufficient for this distribution, the assets available will be distributed ratably among the preferred shareholders.

## 11. COMMON STOCK

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

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

## 11. COMMON STOCK (CONTINUED)

The Company's Board of Directors has authorized various Common Stock private placement offerings. Activity for these offerings during the years ended June 30, 2007, 2006 and 2005 and the nine months ended March 31, 2008.

-On October 17, 2007, the Company entered into a securities purchase agreement (collectively, the "Securities Purchase Agreement") with 37 accredited investors ("Buyers"). Pursuant to the Securities Purchase Agreement, the Company sold to the Buyers a total of 2,142,871 shares of the Company's Common Stock ("Shares") at a price of \$7.00 per Share, for gross proceeds of \$15,000,097. William Blair & Co., LLC ("Blair"), a broker-dealer registered under the 1934 Act, acted as the exclusive placement agent for the private placement. As compensation for its services, the Company paid Blair a fee equal to approximately eight percent of the total consideration received by the Company as a result of the offering. The fee was comprised of cash of \$945,000 and warrants to purchase up to 17,532 shares of the Company's Common Stock at \$7.70 per share at any time through October 17, 2012. Pursuant to the Registration Rights Agreement entered into between the Company and each Buyer, the Company registered the Buyers shares with the Securities and Exchange Commission ("SEC") covering the resale of the Shares effective December 20, 2007.

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

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

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

## 11. COMMON STOCK (CONTINUED)

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

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

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

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

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



USA Technologies, Inc.  
Notes to Consolidated Financial Statements

## 11. COMMON STOCK (CONTINUED)

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

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

On September 25, 2006, the Company entered into a Common Stock Purchase Agreement (the “2006-B Common Stock Agreement”) with Steve Illes. Mr. Illes agreed to purchase shares of the Company’s Common Stock with an aggregate purchase price not to exceed \$15,000,000. Under the 2006-B Common Stock Agreement, the Company has the right at any time to require Mr. Illes to purchase Common Stock from the Company at the lower of: (i) \$30.00 per share; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by the Company to Mr. Illes of notice of his obligation to purchase. The Company can require Mr. Illes to purchase shares only if the shares have been registered by the Company for resale by Mr. Illes under the Securities Act of 1933, as amended. The agreement also states that no additional shares shall be registered under the 2006 Common Stock Agreement. During any calendar month, Mr. Illes cannot be required by the Company to purchase Common Stock for an aggregate purchase price in excess of \$800,000. The 2006-B Common Stock Agreement terminates August 30, 2009. The Company registered 1,500,000 and 800,000 shares effective December 21, 2006 and July 9, 2007, respectively. The Company has the right in the future, if necessary, to register additional shares for resale by Mr. Illes in order to ensure that a sufficient number of shares are available for purchase by Mr. Illes under the 2006-B Common Stock Agreement. The Company issued to Mr. Illes 20,000 shares of Common Stock as a due diligence fee in connection with this transaction and registered these shares for resale by Mr. Illes under the 1933 Act. During the year ended June 30, 2007 and the nine months ended March 31, 2008, the Company issued 1,433,092 shares, including the 20,000 shares as a due diligence fee, and 886,908 (unaudited) shares of Common Stock, respectively, under the 2006-B Common Stock Agreement for total gross proceeds of \$9,326,743 and \$5,671,847 (unaudited), respectively. The Company incurred issuance costs of \$147,509 and \$1,410 (unaudited) during the year ended June 30, 2007 and the nine months ended March 31, 2008, respectively, in connection with this agreement.



USA Technologies, Inc.  
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## 11. COMMON STOCK (CONTINUED)

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

During the year ended June 30, 2007 and 2006 and the nine months ended March 30, 2008, warrants were exercised to purchase 43,552, 36,800 and 58,543 (unaudited) shares of Common Stock at share prices of \$6.40, \$10 and \$6.40 generating proceeds of \$281,024, \$368,000 and \$374,675 (unaudited). During the year ended June 30, 2005, warrants were exercised to purchase 109,942 shares of Common Stock at a share price of \$10, generating net proceeds of \$1,094,658.

There were 28,600, 9,500, 8,005 and 14,700 (unaudited) shares of Common Stock issued to certain employees and officers for services and for professional services during the years ended June 30, 2007, 2006, and 2005 and the nine months ended March 31, 2008, respectively. The value of these shares was based upon the fair value of the Company's Common Stock on the dates the shares were granted and totaled \$178,480, \$79,195, \$107,670 and \$138,704 (unaudited) for the years ended June 30, 2007, 2006, and 2005 and the nine months ended March 31, 2008, respectively.

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

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

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

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

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

## 11. COMMON STOCK (CONTINUED)

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

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

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

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

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

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

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

## 11. COMMON STOCK (CONTINUED)

As a result of the normalization, certain target hurdles were met resulting in the vesting of a total of 241,249 shares under the Plan for the fiscal year rather than a total of 101,578 shares prior to the normalization. The value of the number of the shares the executives may apply to tax withholding was in excess of the minimum statutory obligation and, as a result the Plan is classified as a liability award rather than an equity award. As such, the Company reclassified the \$599,311 related to the 101,578 shares that was previously recorded in Common Stock to a short-term share-based payment liability. As the price of the Company's shares was \$8.45 on the date of the approval of the normalization, a charge of \$1,180,220 was also recorded to compensation expense, related to the additional 139,671 additional shares, with a corresponding amount to the short-term share-based payment liability for a total share-based payment liability of \$1,779,531 as of September 21, 2007. On September 28, 2007, as the Company's share price was \$8.38, the total share-based payment liability related to fiscal year 2007 was \$1,769,754 (\$599,311 compensation expense in fiscal year 2007 and \$1,170,443 in the three months ended September 30, 2007). Of the 241,249 shares vested for fiscal year 2007, the Company issued 225,249 shares of Common Stock and the remaining 16,000 shares were exchanged by the executives and redeemed by the Company to settle tax withholding obligations paid by the Company totaling \$134,080 in connection with the restricted stock bonuses previously awarded and issued to them under their employment agreements. As a result of the fact that a portion of the remaining 225,249 shares were subject to redemption at September 30, 2007, the Company had recorded the entire fair value of those remaining shares as a short-term share-based payment liability as of September 30, 2007 totaling \$1,635,674. On December 30, 2007 the redemption provision lapsed, no further shares were redeemed and the final settlement resulted in a reduction of the short-term share-based payment liability of \$1,635,674, a reduction of compensation expense of \$446,452 and a credit to Common Stock of \$1,189,222 (123,671 shares at \$4.77 and 101,578 shares at \$5.90), as the share price on the date of settlement was \$4.77.

In conjunction with the Plan award for fiscal year 2008, the Company recorded a reduction to compensation expense of \$94,174 and recorded compensation expense of \$428,925 and a corresponding amount to the short-term accrued share-based payment liability during the three and nine months ended March 31, 2008. This amount was based on management's estimate of the probability of meeting the target goals and fair value of the Company's stock of \$4.50 at the end of the reporting period, March 31, 2008. Management will update this estimate and remeasure the short-term share-based payment liability at the end of each reporting period until settlement. The final measurement and charge to compensation expense will be determined on the date of settlement.

As of March 31, 2008, the Company had reserved shares of Common Stock for future issuance for the following (unaudited):

Exercise of Common Stock Options	161,875
Exercise of Common Stock Warrants	1,591,735
Conversions of Preferred Stock and cumulative Preferred Stock dividends	14,977
Issuance under 2007-A Stock Compensation Plan	73,287
Issuance under Long-Term Equity Incentive Program- Fiscal Years 2008 and 2009 (not vested)	634,866
Issuance under Chief Executive Officer's employment agreement upon the occurrence of a USA Transaction	140,000
Total shares reserved for future issuance	<u>2,616,740</u>

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

## 11. COMMON STOCK (CONTINUED)

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

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

A summary of the status of the Company's nonvested common shares as of March 31, 2008 (unaudited) and June 30, 2007 and 2006, and changes during the years ended June 30, 2007 and 2006 and the nine months ended March 31, 2008 (unaudited), is presented below:

<u>Nonvested Shares</u>	<u>Shares</u>	<u>Weighted- Average Grant-Date Fair Value</u>
Nonvested at July 1, 2005	-	\$ -
Granted	125,000	8.00
Vested	(41,667)	8.00
Nonvested at June 30, 2006	83,333	\$ 8.00
Granted (LTIP)	952,298	5.90
Vested (Bonus)	(83,333)	8.00
Vested (LTIP)	(101,578)	5.90
Forfeited (LTIP)	(215,854)	5.90
Nonvested at June 30, 2007	634,866	\$ 5.90
Reversal of forfeited shares due to normalization (LTIP)	139,671	5.90
Vested (LTIP)	(139,671)	5.90
Nonvested at March 31, 2008 (unaudited)	<u>634,866</u>	\$ 5.90

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

12. COMMON STOCK WARRANTS AND OPTIONS

Common Stock Warrant activity for the years ended June 30, 2007, 2006 and 2005 and the nine months ended March 31, 2008 (unaudited) was as follows:

	WARRANTS
Outstanding at June 30, 2004	334,571
Issued	233,333
Exercised	(109,942)
Cancelled	(136,642)
Outstanding at June 30, 2005	321,320
Issued	131,494
Exercised	(36,800)
Cancelled	(196,533)
Outstanding at June 30, 2006	219,481
Issued	1,544,804
Exercised	(43,552)
Cancelled	(16,558)
Outstanding at June 30, 2007	1,704,175
Issued	17,532
Exercised	(58,543)
Cancelled	(71,429)
Outstanding at March 31, 2008	1,591,735

All Common Stock warrants outstanding as of March 31, 2008, June 30, 2007, June 30, 2006 and June 30, 2005 were exercisable and all Common Stock warrants outstanding as of June 30, 2007 were exercisable except for the 833,333 warrants expiring March 15, 2013 which were exercisable as of September 15, 2007. The following table shows exercise prices and expiration dates for warrants outstanding as of March 31, 2008 (unaudited):

WARRANTS OUTSTANDING	EXERCISE PRICE PER SHARE	EXPIRATION DATE
131,494	\$ 20	December 31, 2008
641,930	\$ 6.40	December 31, 2011
833,333	\$ 6.40	March 15, 2013
17,532	\$ 7.70	October 17, 2012
<u>1,591,735</u>		

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

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

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

12. COMMON STOCK WARRANTS AND OPTIONS (CONTINUED)

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

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

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

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

In conjunction with the October 17, 2007 Securities Purchase Agreement (Note 11), the Company issued warrants to purchase up to 17,532 shares of the Company's Common Stock at \$7.70 per share at any time through October 17, 2012.

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

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

## 12. COMMON STOCK WARRANTS AND OPTIONS (CONTINUED)

In conjunction with the Blair Agreements (Note 11), the Company issued warrants to purchase 700,017 shares of Common Stock and are exercisable at \$6.40 per share at any time prior to December 31, 2011. Of these warrants, 90,641 (unaudited) and 32,098 were exercised during the nine months ended March 31, 2008 and the year ended June 30, 2007, respectively. Additionally, the Company issued Blair, the placement agent, warrants to purchase 11,454 shares of Common Stock and are exercisable at \$6.60 per share at any time prior to December 31, 2011. All of these warrants were exercised during the year ended June 30, 2007.

In conjunction with the 2008-C Senior Note offering (Note 9), the Company issued warrants to purchase 54,494 shares of Common Stock and are exercisable at \$20 per share at any time prior to December 31, 2008. In conjunction with the 2010-B Senior Note offering (Note 9), the Company issued warrants to purchase 77,000 shares of Common Stock and are exercisable at \$20 per share at any time prior to December 31, 2008.

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

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

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

The Company's Board of Directors has granted options to employees and Board members to purchase shares of Common Stock at prices that were at or above fair market value on the dates the options were granted. The option term and vesting schedule were established by the contracts under which the options were granted.

USA Technologies, Inc.  
Notes to Consolidated Financial Statements

12. COMMON STOCK WARRANTS AND OPTIONS (CONTINUED)

Common Stock Option activity during the years ended June 30, 2007, 2006 and 2005 and the nine months ended March 31, 2008 (unaudited) was as follows:

	OPTIONS OUTSTANDING	EXERCISE PRICE PER SHARE	WEIGHTED- AVERAGE EXERCISE PRICE
Outstanding at June 30, 2004	18,975	\$ 16.50-\$200	\$ 23.80
Granted	3,000	\$ 20	\$ 20.00
Cancelled	(1,876)	\$ 30	\$ 30.00
Outstanding at June 30, 2005	20,099	\$ 16.50-\$200	\$ 23.58
Granted	160,000	\$ 7.50-\$8	\$ 7.52
Expired	(1,166)	\$ 100-\$200	\$ 105.66
Outstanding at June 30, 2006	178,933	\$ 7.50-\$100	\$ 8.68
Granted	--	--	--
Expired	(15,933)	\$ 16.50-\$100	\$ 18.24
Outstanding at June 30, 2007	163,000	\$ 7.50-\$20	\$ 7.75
Expired	(1,125)	\$ 20	\$ 20.00
Outstanding at March 31, 2008 (unaudited)	161,875	\$ 7.50-\$20	\$ 7.61
Exercisable at June 30, 2007	117,667	\$ 7.50-\$20	\$ 7.83
Exercisable at March 31, 2008 (unaudited)	116,542	\$ 7.50-\$20	\$ 7.64

The following table shows exercisable options, exercise prices, the weighted average remaining contractual life and the aggregate intrinsic value for options outstanding as of March 31, 2008 (unaudited).

OPTIONS OUTSTANDING	OPTIONS EXERCISABLE	EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE		INTRINSIC VALUE-	
			REMAINING LIFE OUTSTANDING	CONTRACTUAL (YEARS)- EXERCISEABLE	OUTSTANDING	EXERCISABLE
154,000	111,667	\$ 7.50	4.18	2.56	\$ -	\$ -
6,000	3,000	\$ 8	4.97	1.44	\$ -	\$ -
1,875	1,875	\$ 20	0.83	0.83	\$ -	\$ -
<u>161,875</u>	<u>116,542</u>		<u>4.43</u>	<u>2.71</u>	<u>\$ -</u>	<u>\$ -</u>

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

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



USA Technologies, Inc.  
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12. COMMON STOCK WARRANTS AND OPTIONS (CONTINUED)

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

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

Total expected compensation expense related to the vesting of options outstanding as of June 30, 2007 is \$115,046 and is expected to be recognized over weighted-average period of 0.95 years. The intrinsic value of the non-vested options as March 31, 2008 and June 30, 2007 was \$0 (unaudited) and \$145,832 respectively.

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

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

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

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

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

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

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

USA Technologies, Inc.  
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## 12. COMMON STOCK WARRANTS AND OPTIONS (CONTINUED)

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

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

The weighted-average grant-date fair value of stock options granted was \$5.26 and \$9.36 during the years ended June 30, 2006 and 2005, respectively. The total fair value of options vested during the years ended June 30, 2007, 2006, and 2005 and the nine months ended March 31, 2008 was \$255,815, \$371,050, \$18,000 and \$0 (unaudited), respectively.

## 13. RETIREMENT PLAN

The Company's Savings and Retirement Plan (the "Plan") allows employees who have attained the age of 21 and have completed six months of service to make voluntary contributions up to a maximum of 15% of their annual compensation, as defined in the Plan. Through June 30, 2000, the Plan did not provide for any matching contribution by the Company, however, starting at the beginning of fiscal year 2001, the Company amended the Plan to include a Company matching contribution up to 10% of an employee's compensation. Effective January 1, 2003, the matching contribution changed to a dollar-for-dollar matching contribution on salary deferrals up to 3% of the employee's compensation then a fifty-cents on the dollar matching contribution on salary deferrals from 3% to 5%. The Company's contribution for the years ended June 30, 2007, 2006 and 2005 and the nine months ended March 31, 2008 and 2007 was approximately \$143,000, \$114,000, \$96,000, \$119,000 (unaudited) and \$104,000 (unaudited), respectively.

## 14. COMMITMENTS AND CONTINGENCIES

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

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

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

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#### 14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

Rent expense under operating leases was approximately \$492,000, \$489,000, \$447,000, \$454,000 (unaudited) and \$395,000 (unaudited) during the years ended June 30, 2007, 2006 and 2005 and the nine months ended March 31, 2008 and 2007, respectively. Future minimum lease payments subsequent to June 30, 2007 under capital leases and noncancellable operating leases are as follows:

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

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

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

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

USA Technologies, Inc.  
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#### 14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

On May 11, 2006, the Company and Mr. Herbert entered into an Amended and Restated Employment Agreement pursuant to which the term of Mr. Herbert's employment with the Company was extended to June 30, 2009. Effective May 11, 2006, Mr. Herbert's base salary was increased to \$285,000 per annum. Mr. Herbert's base salary had not been increased since January 1, 2004. The Agreement requires Mr. Herbert to devote his full time and attention to the business and affairs of the Company and obligates him not to engage in any investments or activities which would compete with the Company during the term of the agreement and for a period of one year thereafter. In the event that a USA Transaction (as defined in Mr. Jensen's employment agreement) shall occur, then Mr. Herbert has the right to terminate his agreement upon 30 days notice to USA. Mr. Herbert was granted the right to elect to have one-half of his base salary for each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009 paid in shares of Common Stock rather than cash. Mr. Herbert was also granted 50,000 shares of Common Stock and an additional amount of options to purchase up to 18,000 shares of Common Stock at \$7.50 per share. The 50,000 shares of Common Stock vested as follows: 16,667 on June 1, 2006; 16,667 on January 1, 2007; and 16,666 on June 1, 2007. The options vest as follows: 6,000 on May 11, 2006; 6,000 on June 30, 2007; and 6,000 on June 30, 2008. The options may be exercised at any time within 5 years of vesting. The Company recorded a non-cash compensation charge of \$176,003 and \$41,310 related to the grant of restricted Common Stock and Common Stock Options, respectively, during the fiscal year ended June 30, 2006. All of the shares granted to or to be issued to Mr. Herbert under his employment agreement, and the shares underlying the options granted to Mr. Herbert, are not and will not be registered under the Securities Act of 1933, as amended, and constitute restricted securities as such term is defined in Rule 144 promulgated under the 1933 Act.

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

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14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

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

15. SUBSEQUENT EVENTS (UNAUDITED)

From March 31 through June 25, 2008, \$7,275,000 of our available-for-sale ARS investments were redeemed by the issuers at par value for cash.

**PART II INFORMATION NOT REQUIRED IN THE PROSPECTUS****ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.**

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

Securities and Exchange Commission Registration Fee	\$	510.71
Printing and Engraving Expenses	\$	4,489.29
Accounting Fees and Expenses	\$	15,000.00
Legal Fees and Expenses	\$	15,000.00
Total	\$	35,000.00

**ITEM 14. INDEMNIFICATION OF OFFICERS AND DIRECTORS.**

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

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

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

**ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.**

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

## PRIVATE PLACEMENTS

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

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

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

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

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



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

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

On September 25, 2006, the Company and Steve Illes entered into the 2006-B Common Stock Purchase Agreement. Pursuant to the 2006-B Common Stock Agreement, Mr. Illes agreed to purchase shares of the Company's Common Stock, provided that the aggregate purchase price does not exceed \$15,000,000. Under the 2006-B Common Stock Agreement, the Company had the right at any time to require Mr. Illes to purchase Common Stock from the Company at the lower of: (i) \$30.00 per share; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by the Company to Mr. Illes of notice of his obligation to purchase. The Company could require Mr. Illes to purchase shares under the 2006-B Common Stock Agreement only if the shares had been registered by the Company for resale under the Act. During any calendar month, Mr. Illes could be required by the Company to purchase Common Stock for an aggregate purchase price in excess of \$800,000. The 2006-B Common Stock Agreement was to terminate on August 30, 2009. However, as of March 31, 2008, the Company issued \$15,000,000 in Common Stock and there are no remaining funds under this agreement. We had agreed to register for resale the shares purchased by Mr. Illes under the agreement for a two year period. The securities offered and sold to Mr. Illes were exempt from registration as set forth under Rule 506 promulgated under the Act. Mr. Illes is an existing shareholder and an accredited investor, and there was no general solicitation or advertising. The 2006-B Common Stock Purchase Agreement replaced the February 2006 stock purchase agreement between Mr. Illes and the Company, and provided that no further shares may be registered under that agreement.

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

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

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

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

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

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

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

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

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

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

## **STOCK OPTIONS**

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

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

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

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

**ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

**EXHIBITS**

Ex No Description

- 2.1 Asset Purchase Agreement dated July 11, 2003 by and between USA and Bayview Technology Group LLC (Incorporated by reference to Exhibit 2.1 to Form 8-K filed July 14, 2003)
- 3.1 Amended and Restated Articles of Incorporation of USA filed January 26, 2004 (Incorporated by reference to Exhibit 3.1.19 to Form 10-QSB filed on February 12, 2004).
  - 3.1.1 First Amendment to Amended and Restated Articles of Incorporation of USA filed on March 17, 2005 (Incorporated by reference to Exhibit 3.1.1 to Form S-1 Registration Statement No. 333-124078).
  - 3.1.2 Second Amendment to Amended and Restated Articles of Incorporation of USA filed on December 13, 2005 (Incorporated by reference to Exhibit 3.1.2 to Form S-1 Registration Statement No. 333-130992).
- 3.2 By-Laws of USA (Incorporated by reference to Exhibit 3.2 to Form SB-2 Registration Statement No. 33-70992).
- 4.1 2006-B Common Stock Purchase Agreement between the Company and Steve Illes dated September 25, 2006 (Incorporated by reference to Exhibit 4.14 to Form 10-K filed September 28, 2006).
- 4.2 Common Stock Purchase Agreement between the Company and Cortina Asset Management LLC dated December 15, 2006 (Incorporated by reference to Exhibit 4.17 to Form S-1 filed on January 9, 2007).
- 4.3 Common Stock Purchase Agreement between the Company and Wellington Management Company, LLP, acting on behalf of Public Sector Pension Investment Board, dated December 15, 2006 (Incorporated by reference to Exhibit 4.18 to Form S-1 filed on January 9, 2007).
- 4.4 Common Stock Purchase Agreement between the Company and Wellington Management Company, LLP, acting on behalf of New York Nurses Association Pension Plan, dated December 15, 2006 (Incorporated by reference to Exhibit 4.19 to Form S-1 filed on January 9, 2007).
- 4.5 Common Stock Purchase Agreement between the Company and Wellington Management Company, LLP, acting on behalf of The Government of Singapore Investment Corporation Pte Ltd, dated December 15, 2006 (Incorporated by reference to Exhibit 4.20 to Form S-1 filed on January 9, 2007).
- 4.6 Common Stock Purchase Agreement between the Company and SF Capital Partners Ltd. dated December 15, 2006 (Incorporated by reference to Exhibit 4.21 to Form S-1 filed on January 9, 2007).

- 4.7 Common Stock Purchase Agreement between the Company and United Capital Management, Inc. dated December 15, 2006 (Incorporated by reference to Exhibit 4.22 to Form S-1 filed on January 9, 2007).
- 4.8 Common Stock Purchase Agreement between the Company and Harbour Holdings Ltd. dated December 15, 2006 (Incorporated by reference to Exhibit 4.23 to Form S-1 filed on January 9, 2007).
- 4.9 Common Stock Purchase Agreement between the Company and Skylands Special Investment LLC dated December 15, 2006 (Incorporated by reference to Exhibit 4.24 to Form S-1 filed on January 9, 2007).
- 4.10 Common Stock Purchase Agreement between the Company and Skylands Quest LLC dated December 15, 2006 (Incorporated by reference to Exhibit 4.25 to Form S-1 filed on January 9, 2007).
- 4.11 Common Stock Purchase Agreement between the Company and Skylands Special Investment II LLC dated December 15, 2006 (Incorporated by reference to Exhibit 4.26 to Form S-1 filed on January 9, 2007).
- 4.12 Form of 2006-BP Common Stock Purchase Warrant (Incorporated by reference to Exhibit 4.27 to Form S-1 filed on January 9, 2007).
- 4.13 Common Stock Purchase Warrant issued to William Blair & Co., LLC, dated January 4, 2007 (Incorporated by reference to Exhibit 4.27 to Form S-1 filed on January 9, 2007).
- 4.14 Securities Purchase Agreement between the Company and S.A.C. Capital Associates, LLC dated March 14, 2007.
- 4.15 Form of Warrant No. SAC-001 issued to S.A.C. Capital Associates, LLC.
- 4.16 Registration Rights Agreement between the Company and S.A.C. Capital Associates, LLC dated March 14, 2007.
- 4.17 Form of Securities Purchase Agreement dated October 17, 2007 between the Company and each of the Buyers (Incorporated by reference to Exhibit 4.1 of Form 8-K filed October 17, 2007).
- 4.18 Form of Registration Rights Agreement dated October 17, 2007 between the Company and each of the Buyers (Incorporated by reference to Exhibit 4.2 of Form 8-K filed October 17, 2007).
- 4.19 Common Stock Purchase Warrant issued to William Blair & Co., LLC, dated October 17, 2007 (Incorporated by reference to Exhibit 4.34 of Form S-1 filed November 16, 2007).
- \*\* 5.1 Opinion of Lurio & Associates, P.C.
- 10.1 Amended And Restated Employment and Non-Competition Agreement between USA and Stephen P. Herbert dated May 11, 2006 (Incorporated by reference to Exhibit 10.2 to Form 10-Q filed on May 15, 2006).
- 10.2 Amended And Restated Employment and Non-competition Agreement between USA and George R. Jensen, Jr. dated May 11, 2006 (Incorporated by reference to Exhibit 10.1 to Form 10-Q filed on May 15, 2006).
- 10.3 Agreement of Lease between Pennswood Spring Mill Associates, as landlord, and the Company, as tenant, dated September 2002, and the Rider thereto (Incorporated by reference to Exhibit 10.21 to Form 10-KSB filed on September 28, 2004).

- 10.4 Agreement of Lease between Deerfield Corporate Center 1 Associates LP, as landlord, and the Company, as tenant, dated March 2003 (Incorporated by reference to Exhibit 10.22 to Form 10-KSB filed on September 28, 2004).
- 10.5 Amendment to Office Space Lease dated as of April 1, 2005 by and between the Company and Deerfield Corporate Center Associates, LP. (Incorporated by reference to Exhibit 10.19.1 to Form S-1 Registration Statement No. 333-124078).
- 10.6 Employment and Non-Competition Agreement between USA and David M. DeMedio dated April 12, 2005 (Incorporated by reference to Exhibit 10.22 to Form S-1 Registration Statement No. 333-124078).
- 10.7 First Amendment to Employment and Non-Competition Agreement between USA and David M. DeMedio dated May 11, 2006 (Incorporated by reference to Exhibit 10.3 to Form 10-Q filed on May 15, 2006).
- 10.8 Option Certificate (No. 200) dated April 12, 2005 in favor of David M. DeMedio (Incorporated by reference to Exhibit 10.23 to Form S-1 Registration Statement No. 333-124078).
- 10.9 Option Certificate (No. 201) dated May 11, 2006 in favor of George R. Jensen, Jr. (Incorporated by reference to Exhibit 10.21 to Form 10-K filed on September 28, 2006)
- 10.10 Option Certificate (No. 202) dated May 11, 2006 in favor of Stephen P. Herbert (Incorporated by reference to Exhibit 10.22 to Form 10-K filed on September 28, 2006)
- 10.11 Option Certificate (No. 203) dated May 11, 2006 in favor of David M. Demedio (Incorporated by reference to Exhibit 10.23 to Form 10-K filed on September 28, 2006)
- 10.12 Option Certificate (No. 204) dated April 21, 2006 in favor of William W. Sellers (Incorporated by reference to Exhibit 10.24 to Form 10-K filed on September 28, 2006)
- 10.13 Option Certificate (No. 205) dated April 21, 2006 in favor of William L. Van Alen, Jr. (Incorporated by reference to Exhibit 10.25 to Form 10-K filed on September 28, 2006)
- 10.14 Option Certificate (No. 206) dated April 21, 2006 in favor of Steven Katz (Incorporated by reference to Exhibit 10.26 to Form 10-K filed on September 28, 2006)
- 10.15 Option Certificate (No. 207) dated April 21, 2006 in favor of Douglas M. Lurio (Incorporated by reference to Exhibit 10.27 to Form 10-K filed on September 28, 2006)
- 10.16 Option Certificate (No. 208) dated April 21, 2006 in favor of Albert Passner (Incorporated by reference to Exhibit 10.28 to Form 10-K filed on September 28, 2006)
- 10.17 Option Certificate (No. 209) dated July 20, 2006 in favor of Stephen W. McHugh (Incorporated by reference to Exhibit 10.29 to Form 10-K filed on September 28, 2006)

- 10.18 USA Technologies, Inc. 2006-A Stock Compensation Plan (Incorporated by reference to Exhibit 10.1 to Form S-8 filed June 19, 2006).
- 10.19 Restricted Stock Issuance Agreement In Lieu of Cash Base Salary between George R. Jensen, Jr. and USA Technologies, Inc. dated June 28, 2006 (Incorporated by reference to Exhibit 10.31 to Form S-1 filed October 20, 2006).
- 10.20 Restricted Bonus Stock Issuance Agreement between George R. Jensen, Jr., and USA Technologies, Inc. dated June 28, 2006 (Incorporated by reference to Exhibit 10.32 to Form S-1 filed October 20, 2006).
- 10.21 Restricted Bonus Stock Issuance Agreement between Stephen P. Herbert and USA Technologies, Inc. dated June 28, 2006 (Incorporated by reference to Exhibit 10.33 to Form S-1 filed October 20, 2006).
- 10.22 MasterCard PayPass Agreement dated as of November 9, 2006 between the Company and MasterCard International Incorporated (Incorporated by reference to Exhibit 10.34 to Form S-1/A filed December 7, 2006).
- 10.23 Amendment to Agreement of Lease between BMR-Spring Mill Drive, L.P., as landlord, and the Company, as tenant, dated January 15, 2007 (Incorporated by reference to Exhibit 10.1 to Form 10-Q filed on February 13, 2007).
- 10.24 First Amendment to Employment and Non-Competition Agreement dated March 13, 2007, between the Company and George R. Jensen, Jr. (Incorporated by reference to Exhibit 10.32 to Form S-1 filed April 12, 2007).
- 10.25 First Amendment to Employment and Non-Competition Agreement dated March 13, 2007, between the Company and Stephen P. Herbert (Incorporated by reference to Exhibit 10.33 to Form S-1 filed April 12, 2007).
- 10.26 Second Amendment to Employment and Non-Competition Agreement dated March 13, 2007, between the Company and David M. DeMedio (Incorporated by reference to Exhibit 10.34 to Form S-1 filed April 12, 2007).
- 10.27 Form of Indemnification Agreement between the Company and each of its officers and Directors (Incorporated by reference to Exhibit 10.1 to Form 10-Q filed May 14, 2007).
- 10.28 Supply and Licensing Agreement dated as of February 19, 2007 between Coca-Cola Enterprises, Inc. and the Company (Incorporated by reference to Exhibit 10.34 to Form S-1 filed June 6, 2007).
- 10.29 Stock Issuance And Withholding Agreement between the Company and George R. Jensen, Jr., dated September 28, 2007 (Incorporated by reference to Exhibit 10.1 to Form 10-Q filed November 13, 2007).
- 10.30 Stock Issuance And Withholding Agreement between the Company and Stephen P. Herbert dated September 28, 2007 (Incorporated by reference to Exhibit 10.2 to Form 10-Q filed November 13, 2007).



- 10.31 Stock Issuance Agreement between the Company and David M. DeMedio dated September 28, 2007 (Incorporated by reference to Exhibit 10.3 to Form 10-Q filed November 13, 2007).
- 10.32 First Amendment to MasterCard PayPass Participation Agreement dated August 17, 2007 between the Company, MasterCard International Incorporated and Coca-Cola Enterprises (Incorporated by reference to Exhibit 10.26 to Form 10-K for the fiscal year ended June 30, 2007).
- 10.33 MasterCard PayPass Agreement between the Company and MasterCard International Incorporated dated November 16, 2007 (Incorporated by reference to Exhibit 10.33 to Form S-1 filed November 28, 2007).
- 14.1 Code of Business Conduct and Ethics (Incorporated by reference to Exhibit 14.1 to Form 8-K filed on April 17, 2006).
- \*\* 23.1 Consent of Goldstein Golub Kessler LLP, Independent Registered Public Accounting Firm.

\*\* Filed herewith

## ITEM 16(b) FINANCIAL STATEMENT SCHEDULES

## SCHEDULE II

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

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

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

## ITEM 17. UNDERTAKINGS.

The undersigned registrant hereby undertakes:

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

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

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

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

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

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

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

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

- (i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;
- (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
- (iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
- (iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

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

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing this Form S-1 and has duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in Malvern, Pennsylvania, on June 30, 2008.

USA TECHNOLOGIES, INC.

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

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

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

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

<u>SIGNATURES</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ George R. Jensen, Jr.</u> GEORGE R. JENSEN, JR.	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	June 30, 2008
<u>/s/ David M. DeMedio</u> DAVID M. DEMEDIO	Chief Financial Officer (Principal Accounting Officer)	June 30, 2008
<u>/s/ Stephen P. Herbert</u> STEPHEN P. HERBERT	Chief Operating Officer, President and Director	June 30, 2008
<u>/s/ William L. Van Alen, Jr.</u> WILLIAM L. VAN ALEN, JR.	Director	June 30, 2008
<u>/s/ Douglas M. Lurio</u> DOUGLAS M. LURIO	Director	June 30, 2008
<u>/s/ Steven Katz</u> STEVEN KATZ	Director	June 30, 2008
<u>/s/ Joel Brooks</u> JOEL BROOKS	Director	June 30, 2008
<u>/s/ Stephen W. McHugh</u> STEPHEN W. MCHUGH	Director	June 30, 2008

**Exhibit Index**

<u>Exhibit Number</u>	<u>Description</u>
<a href="#">5.1</a>	Opinion of Lurio & Associates, P.C.
<a href="#">23.1</a>	Consent of Goldstein Golub Kessler LLP

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**Exhibit 5.1**

June 30, 2008

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

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

Dear Mr. Jensen:

We have acted as counsel to USA Technologies, Inc., a Pennsylvania corporation (the "Company"), in connection with a Registration Statement on Form S-1, filed with the Securities and Exchange Commission on June 30, 2008 (the "Registration Statement"). The Registration Statement covers an aggregate of 2,854,381 shares of Common Stock ("Common Stock"), 1,950,426 of which are currently outstanding, and the balance (up to 903,955 shares) of which are issuable upon the exercise of common stock purchase warrants.

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

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

Based upon, and subject to the foregoing, and such legal considerations as we deem relevant, we are of the opinion that (i) the 1,950,426 shares of Common Stock that are currently issued and outstanding are legally issued, fully paid and nonassessable; and (ii) the 903,955 shares issuable upon exercise of common stock purchase warrants, when issued, will be legally issued, fully paid and nonassessable.

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

Sincerely,

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

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**Exhibit 23.2**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated September 26, 2007 in the Registration Statement (Form S-1 No. 333-000000) and related Prospectus of USA Technologies, Inc. dated June 30, 2008.

/s/ Goldstein Golub Kessler LLP  
GOLDSTEIN GOLUB KESSLER LLP

New York, New York  
June 30, 2008

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