

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-33365

USA Technologies, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation or organization)

23-2679963

(I.R.S. Employer Identification No.)

100 Deerfield Lane, Suite 140, Malvern, Pennsylvania

(Address of principal executive offices)

19355

(Zip Code)

(610) 989-0340

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of January 31, 2015, there were 35,747,905 shares of Common Stock, no par value, outstanding.

USA TECHNOLOGIES, INC.

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USA Technologies, Inc.
Consolidated Balance Sheets

	<u>December 31,</u> 2014	<u>June 30,</u> 2014
	<u>(unaudited)</u>	
Assets		
Current assets:		
Cash	\$ 6,734,077	\$ 9,072,320
Accounts receivable, less allowance for uncollectible accounts of \$197,000 and \$63,000, respectively	2,758,475	2,683,579
Finance receivables	362,898	119,793
Inventory	3,448,374	1,486,777
Prepaid expenses and other current assets	586,144	363,367
Deferred income taxes	907,691	907,691
Total current assets	<u>14,797,659</u>	<u>14,633,527</u>
Finance receivables, less current portion	1,643,363	352,794
Prepaid expenses and other assets	410,838	190,703
Property and equipment, net	16,450,712	21,138,580
Deferred income taxes	26,290,424	26,353,330
Intangibles, net	432,100	432,100
Goodwill	7,663,208	7,663,208
Total assets	<u>\$ 67,688,304</u>	<u>\$ 70,764,242</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 5,385,822	\$ 7,753,911
Accrued expenses	1,726,614	1,915,799
Line of credit	4,000,000	5,000,000
Current obligations under long-term debt	203,621	172,911
Income taxes payable	-	21,021
Deferred gain from sale-leaseback transactions	860,390	380,895
Total current liabilities	<u>12,176,447</u>	<u>15,244,537</u>
Long-term liabilities:		
Long-term debt, less current portion	261,716	249,865
Accrued expenses, less current portion	102,338	186,174
Warrant liabilities	139,755	585,209
Deferred gain from sale-leaseback transactions, less current portion	1,330,544	761,790
Total long-term liabilities	<u>1,834,353</u>	<u>1,783,038</u>
Total liabilities	<u>14,010,800</u>	<u>17,027,575</u>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value:		
Authorized shares- 1,800,000 Series A convertible preferred- Authorized shares- 900,000 Issued and outstanding shares- 442,968 (liquidation preference of \$17,022,682 and \$16,690,456, respectively)	3,138,056	3,138,056
Common stock, no par value: Authorized shares- 640,000,000 Issued and outstanding shares- 35,660,345 and 35,514,685, respectively	224,472,905	224,210,197
Accumulated deficit	(173,933,457)	(173,611,586)
Total shareholders' equity	<u>53,677,504</u>	<u>53,736,667</u>
Total liabilities and shareholders' equity	<u>\$ 67,688,304</u>	<u>\$ 70,764,242</u>

See accompanying notes.

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

	Three months ended December 31,		Six months ended December 31,	
	2014	2013	2014	2013
Revenues:				
License and transaction fees	\$ 10,479,496	\$ 8,671,085	\$ 20,635,718	\$ 17,178,129
Equipment sales	2,341,441	1,899,429	4,437,821	3,515,443
Total revenues	12,820,937	10,570,514	25,073,539	20,693,572
Cost of services				
Cost of services	7,157,840	5,495,385	14,408,947	10,904,848
Cost of equipment	1,929,841	1,244,996	3,796,098	2,375,820
Gross profit	3,733,256	3,830,133	6,868,494	7,412,904
Operating expenses:				
Selling, general and administrative	3,530,064	3,193,568	7,162,551	6,488,912
Depreciation and amortization	151,737	126,875	321,140	285,384
Total operating expenses	3,681,801	3,320,443	7,483,691	6,774,296
Operating income (loss)	51,455	509,690	(615,197)	638,608
Other income (expense):				
Interest income	4,015	4,714	14,097	18,240
Interest expense	(49,429)	(60,405)	(124,340)	(121,381)
Change in fair value of warrant liabilities	135,402	(37,896)	445,454	181,201
Total other income (expense), net	89,988	(93,587)	335,211	78,060
Income (loss) before provision for income taxes	141,443	416,103	(279,986)	716,668
Provision for income taxes	(402,358)	(6,912)	(41,885)	(13,823)
Net income (loss)	(260,915)	409,191	(321,871)	702,845
Cumulative preferred dividends	-	-	(332,226)	(332,226)
Net income (loss) applicable to common shares	\$ (260,915)	\$ 409,191	\$ (654,097)	\$ 370,619
Net earnings (loss) per common share - basic	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ 0.01
Weighted average number of common shares outstanding	35,657,519	34,136,884	35,625,199	33,730,590
Net earnings (loss) per common share - diluted	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ 0.01
Diluted weighted average number of common shares outstanding	35,657,519	34,222,731	35,625,199	33,730,590

See accompanying notes.

USA Technologies, Inc.
Consolidated Statement of Shareholders' Equity
(Unaudited)

	Series A Convertible Preferred Stock		Common Stock		Accumulated Deficit	Total
	Shares	Amount	Shares	Amount		
Balance, June 30, 2014	442,968	\$ 3,138,056	35,514,685	\$ 224,210,197	\$ (173,611,586)	\$ 53,736,667
Issuance of fully-vested shares of common stock to employees and directors and vesting of shares under the 2011 Stock Incentive Plan	-	-	10,002	604	-	604
Issuance of fully-vested shares of common stock to employees and directors and vesting of shares under the 2012 Stock Incentive Plan	-	-	60,182	14,478	-	14,478
Issuance of fully-vested shares of common stock to employees and directors and vesting of shares under the 2013 Stock Incentive Plan	-	-	107,375	155,262	-	155,262
Charges incurred under the 2014 Stock Option Incentive Plan	-	-	-	154,351	-	154,351
Retirement of common stock	-	-	(31,899)	(61,987)	-	(61,987)
Net loss	-	-	-	-	(321,871)	(321,871)
Balance, December 31, 2014	<u>442,968</u>	<u>\$ 3,138,056</u>	<u>35,660,345</u>	<u>\$ 224,472,905</u>	<u>\$ (173,933,457)</u>	<u>\$ 53,677,504</u>

See accompanying notes.

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

	Three months ended December 31,		Six months ended December 31,	
	2014	2013	2014	2013
OPERATING ACTIVITIES:				
Net income (loss)	\$ (260,915)	\$ 409,191	\$ (321,871)	\$ 702,845
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Charges incurred in connection with the vesting and issuance of common stock for employee and director compensation	185,891	104,464	324,695	188,856
(Gain) loss on disposal of property and equipment	(3,794)	(5,451)	(7,078)	9,484
Non-cash interest and amortization of debt discount	-	-	-	2,095
Bad debt expense, net	140,996	51,619	299,712	78,050
Depreciation	1,443,710	1,278,518	2,917,122	2,496,589
Amortization	-	-	-	21,953
Change in fair value of warrant liabilities	(135,402)	37,896	(445,454)	(181,201)
Deferred income taxes, net	423,379	6,912	62,906	13,823
Recognition of deferred gain from sale leaseback transactions	(215,097)	-	(403,424)	-
Changes in operating assets and liabilities:				
Accounts receivable	(363,368)	344,611	(283,253)	1,049,726
Finance receivables	(778,212)	104,076	(1,533,674)	65,405
Inventory	(804,629)	45,903	(1,942,948)	123,920
Prepaid expenses and other current assets	(246,709)	(63,026)	(357,464)	(114,986)
Accounts payable	(2,338,176)	(68,081)	(2,459,444)	(1,315,867)
Accrued expenses	(87,130)	(503,280)	(273,021)	(485,516)
Income taxes payable	-	-	(21,021)	-
Net cash provided by (used in) operating activities	<u>(3,039,456)</u>	<u>1,743,352</u>	<u>(4,444,217)</u>	<u>2,655,176</u>
INVESTING ACTIVITIES:				
Purchase of property and equipment	(18,879)	(10,601)	(50,369)	(25,227)
Purchase of property for rental program	-	(2,493,247)	(1,641,993)	(4,568,222)
Proceeds from sale of rental equipment under sale leaseback transactions	-	-	4,993,879	-
Proceeds from the sale of property and equipment	11,177	24,862	34,911	24,862
Net cash provided by (used in) investing activities	<u>(7,702)</u>	<u>(2,478,986)</u>	<u>3,336,428</u>	<u>(4,568,587)</u>
FINANCING ACTIVITIES:				
Net proceeds from the exercise of common stock warrants and the retirement of common stock	(61,987)	1,679,433	(61,987)	1,765,087
Proceeds (repayment) from line of credit, net	(1,000,000)	-	(1,000,000)	1,000,000
Repayment of long-term debt	(72,856)	(100,700)	(168,467)	(177,677)
Net cash provided by (used in) financing activities	<u>(1,134,843)</u>	<u>1,578,733</u>	<u>(1,230,454)</u>	<u>2,587,410</u>
Net increase (decrease) in cash and cash equivalents	(4,182,001)	843,099	(2,338,243)	673,999
Cash and cash equivalents at beginning of period	10,916,078	5,811,900	9,072,320	5,981,000
Cash and cash equivalents at end of period	<u>\$ 6,734,077</u>	<u>\$ 6,654,999</u>	<u>\$ 6,734,077</u>	<u>\$ 6,654,999</u>
<i>Supplemental disclosures of cash flow information :</i>				
Cash paid for interest	<u>\$ 55,992</u>	<u>\$ 60,069</u>	<u>\$ 135,191</u>	<u>\$ 129,804</u>
Depreciation expense allocated to cost of sales	<u>\$ 1,282,860</u>	<u>\$ 1,151,643</u>	<u>\$ 2,578,305</u>	<u>\$ 2,233,158</u>
Reclass of rental program property to inventory, net	<u>\$ 14,384</u>	<u>\$ 7,544</u>	<u>\$ 18,649</u>	<u>\$ 13,117</u>
Prepaid items financed with debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,125</u>	<u>\$ 101,850</u>
Equipment and software acquired under capital lease	<u>\$ 107,903</u>	<u>\$ -</u>	<u>\$ 107,903</u>	<u>\$ 22,036</u>
Disposal of property and equipment	<u>\$ 9,841</u>	<u>\$ 44,512</u>	<u>\$ 51,903</u>	<u>\$ 218,716</u>
Disposal of property and equipment under sale leaseback transactions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,873,275</u>	<u>\$ -</u>

See accompanying notes.

USA Technologies, Inc.
Notes to Consolidated Financial Statements

1. ACCOUNTING POLICIES

BUSINESS

USA Technologies, Inc. (the “Company”, “We”, “USAT”, or “Our”) was incorporated in the Commonwealth of Pennsylvania in January 1992. We are a provider of technology-enabled solutions and value-added services that facilitate electronic payment transactions primarily within the unattended Point of Sale (“POS”) market. We are a leading provider in the small ticket, beverage and food vending industry and are expanding our solutions and services to other unattended market segments, such as amusement, commercial laundry, kiosk, taxi and others. Since our founding, we have designed and marketed systems and solutions that facilitate electronic payment options, as well as telemetry and machine-to-machine (“M2M”) services, which include the ability to remotely monitor, control, and report on the results of distributed assets containing our electronic payment solutions. Historically, these distributed assets have relied on cash for payment in the form of coins or bills, whereas, our systems allow them to accept cashless payments such as through the use of credit or debit cards or other emerging contactless forms, such as mobile payment.

INTERIM FINANCIAL INFORMATION

The accompanying unaudited consolidated financial statements of USA Technologies, Inc. have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements and therefore should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended June 30, 2014. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting of normal recurring adjustments, have been included. Operating results for the three and six month periods ended December 31, 2014 are not necessarily indicative of the results that may be expected for the year ending June 30, 2015. The balance sheet at June 30, 2014 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

The Company had a net loss of \$260,915 and \$321,871 for the three and six month periods ended December 31, 2014, respectively. The Company had net income of \$27,530,652 for the year ended June 30, 2014. Included in net income for the year ended June 30, 2014 was a benefit for income taxes of \$27,255,398. Net income (loss) includes adjustments for changes to the fair value of our warrant liabilities, which are subject to secondary market conditions, and are not reasonably predictable. 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 annual revenues, the Company will be required to use its cash on hand, and its line of credit (see Note 4), and may raise capital to meet its cash flow requirements including the issuance of Common Stock or debt financing.

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 consolidated 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 consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

CASH EQUIVALENTS

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

At December 31, 2014 and June 30, 2014, none of the cash of the Company was payable to our customers. Included in accounts receivable are amounts for transactions processed with our card processors for which cash has not been received by the Company and included in accounts payable are amounts for transactions processed with our card processors and due to our customers, which are recorded net of fees due to the Company. Generally, contractual terms require us to remit amounts owed to our customers on a weekly basis.

USA Technologies, Inc.
Notes to Consolidated Financial Statements

1. ACCOUNTING POLICIES (CONTINUED)

FINANCE RECEIVABLES

The Company offers extended payment terms to certain customers for equipment sales under its QuickStart Program. In accordance with the Financial Accounting Standards Board Accounting Standards Codification® (“ASC”) Topic 840, “Leases”, agreements under the QuickStart Program qualify for sales-type lease accounting. Accordingly, the future minimum lease payments are classified as finance receivables in the Company’s consolidated balance sheets. QuickStart leases are generally for a sixty month term. 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 note or lease payments as interest income in the accompanying consolidated financial statements based on the effective interest rate method.

INVENTORY

Inventory consists of finished goods and packaging materials. The Company’s inventory is stated at the lower of cost (average cost basis) or market.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company’s financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy. The three levels are as follows:

Level 1- Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2- Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3- Inputs are unobservable and reflect the Company’s assumptions that market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available.

The Company’s financial instruments, principally cash, accounts receivable, finance receivables, prepaid expenses and other assets, accounts payable and accrued expenses, are carried at cost which approximates fair value due to the short-term maturity of these instruments. The fair value of the Company’s obligations under its long-term debt and credit agreements approximates their carrying value, as such instruments are at market rates currently available to the Company.

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.

REVENUE RECOGNITION

Revenue from the sale or QuickStart lease of equipment is recognized on the terms of freight-on-board shipping point. Activation fee revenue is recognized when the Company’s cashless payment device is initially activated for use on the Company network. 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. 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.

USA Technologies, Inc.
Notes to Consolidated Financial Statements

1. ACCOUNTING POLICIES (CONTINUED)

EQUIPMENT RENTAL

The Company offers its customers a rental program for its ePort devices, the JumpStart Program (“JumpStart”). JumpStart terms are typically 36 months and are cancellable with thirty to sixty days’ written notice. In accordance with ASC 840, “Leases”, the Company classifies the rental agreements as operating leases, with service fee revenue related to the leases included in license and transaction fees in the Consolidated Statements of Operations. Cost for the JumpStart revenues, which consists of depreciation expense on the JumpStart equipment, is included in cost of services in the Consolidated Statements of Operations. ePort equipment utilized by the JumpStart Program is included in property and equipment, net on the Consolidated Balance Sheet.

ACCOUNTING FOR EQUITY AWARDS

In accordance with ASC 718, the cost of employee services received in exchange for an award of equity instruments is based on the grant-date fair value of the award and allocated over the vesting period of the award.

INCOME TAXES

The Company follows the provisions of FASB ASC 740, Accounting for Uncertainty in Income Taxes, which provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the consolidated financial statements. Tax positions must meet a “more-likely-than-not” recognition threshold at the effective date to be recognized upon the adoption of ASC 740 and in subsequent periods.

Income taxes are computed using the asset and liability method of accounting. Under the asset and liability method, a deferred tax asset or liability is recognized for estimated future tax effects attributable to temporary differences and carryforwards. The measurement of deferred income tax assets is adjusted by a valuation allowance, if necessary, to recognize future tax benefits only to the extent, based on available evidence it is more likely than not such benefits will be realized. The Company recognizes interest and penalties, if any, related to uncertain tax positions in selling, general and administrative expenses. No interest or penalties related to uncertain tax positions were accrued or incurred during the three and six months ended December 31, 2014 and 2013.

EARNINGS (LOSS) PER COMMON SHARE

Basic earnings (loss) per share are 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 year plus the effect of potential common shares unless such effect is anti-dilutive.

2. FINANCE RECEIVABLES

Finance Receivables consist of the following:

	December 31, 2014 <u>(unaudited)</u>	June 30, 2014 <u></u>
Total finance receivables	\$ 2,006,261	\$ 472,587
Less current portion	362,898	119,793
Non-current portion of finance receivables	<u>\$ 1,643,363</u>	<u>\$ 352,794</u>

As of December 31, 2014 and June 30, 2014, there was no allowance for credit losses of finance receivables. As the Company collects monthly payments of the receivables from the customers’ transaction funds, the risk of loss was determined to be remote.

USA Technologies, Inc.
Notes to Consolidated Financial Statements

2. FINANCE RECEIVABLES (CONTINUED)

Credit Quality Indicators
As of December 31, 2014
(unaudited)

Credit risk profile based on payment activity:

	Leases
Performing	\$ 1,999,444
Nonperforming	6,817
Total	\$ 2,006,261

Age Analysis of Past Due Finance Receivables
As of December 31, 2014
(unaudited)

	31 – 60 Days Past Due	61 – 90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Finance Receivables
Leases	\$ 1,571	\$ 1,191	\$ 4,055	\$ 6,817	\$ 1,999,444	\$ 2,006,261
Total	\$ 1,571	\$ 1,191	\$ 4,055	\$ 6,817	\$ 1,999,444	\$ 2,006,261

3. ACCRUED EXPENSES

Accrued expenses consist of the following:

	December 31, 2014 (unaudited)	June 30, 2014
Accrued compensation and related sales commissions	\$ 311,303	\$ 545,110
Accrued professional fees	268,317	214,615
Accrued taxes and filing fees	629,375	640,958
Advanced customer billings	324,523	370,040
Accrued rent	116,514	155,712
Accrued other	178,920	175,538
	\$ 1,828,952	\$ 2,101,973

4. LINE OF CREDIT

The balance due on the Line of Credit was \$4,000,000 and \$5,000,000 at December 31, 2014 and June 30, 2014, respectively. At December 31, 2014, \$3,000,000 was available under the Line of Credit.

In September 2014, the Company and the Bank entered into a Ninth Amendment (“Ninth Amendment”) to the Loan and Security Agreement to change the definition of Adjusted EBITDA for the quarter ended September 30, 2014.

USA Technologies, Inc.
Notes to Consolidated Financial Statements

5. LONG-TERM DEBT

Long-term debt consists of the following:

	December 31, 2014 (unaudited)	June 30, 2014
Capital lease obligations	\$ 419,001	\$ 414,525
Loan agreements	46,336	8,251
	<u>465,337</u>	<u>422,776</u>
Less current portion	203,621	172,911
	<u>\$ 261,716</u>	<u>\$ 249,865</u>

During August 2014, the Company financed a portion of the premiums for various insurance policies totaling \$103,125, due in nine monthly payments through April 2015 at an interest rate of 5.27%.

In October 2014, the Company entered into a capital lease for network equipment totaling \$107,903 due in twelve quarterly installments of \$9,831 through August 2017.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with the fair value hierarchy described in Note 1, the following table shows the fair value of the Company's financial instrument that is required to be measured at fair value as of December 31, 2014 and June 30, 2014:

<u>December 31, 2014 (unaudited)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock warrant liability, warrants exercisable at \$2.6058 from September 18, 2011 through September 18, 2016	\$ -	\$ -	\$ 139,755	\$ 139,755
<u>June 30, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock warrant liability, warrants exercisable at \$2.6058 from September 18, 2011 through September 18, 2016	\$ -	\$ -	\$ 585,209	\$ 585,209

As of December 31, 2014 and June 30, 2014, the Company held no Level 1 or Level 2 financial instruments.

As of December 31, 2014 and June 30, 2014, the fair values of the Company's Level 3 financial instrument totaled \$139,755 and \$585,209, respectively. The Level 3 financial instrument consists of common stock warrants issued by the Company in March 2011, which include features requiring liability treatment of the warrants. The fair value of warrants issued in March 2011 to purchase 3.9 million shares of the Company's common stock is based on valuations performed by an independent third party valuation firm. The fair value was determined using proprietary valuation models using the quality of the underlying securities of the warrants, restrictions on the warrants and security underlying the warrants, time restrictions and precedent sale transactions completed in the secondary market or in other private transactions. There were no transfers of assets or liabilities between level 1, level 2, or level 3 during the three and six months ended December 31, 2014 and 2013.

USA Technologies, Inc.
Notes to Consolidated Financial Statements

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarizes the changes in fair value of the Company's Level 3 financial instruments for the six months ended December 31, 2014 and 2013:

	Six months ended December 31,	
	2014 (unaudited)	2013 (unaudited)
Beginning balance	\$ (585,209)	\$ (650,638)
Gain due to change in fair value of warrant liabilities, net	445,454	181,201
Ending balance	<u>\$ (139,755)</u>	<u>\$ (469,437)</u>

7. INCOME TAXES

The Company has significant deferred tax assets, a substantial amount of which result from operating loss carryforwards. In periods prior to the quarter ended March 31, 2014, the Company had determined that it was more likely than not that the benefit of its deferred tax assets would not be realized and recorded a full valuation allowance against such assets. As of March 31, 2014 the Company determined that it was more likely than not that it would realize a substantial portion of its deferred tax assets and reduced its valuation allowance accordingly.

For the three and six months ended December 31, 2014, an income tax provision of \$402,358 and \$41,885, respectively, was recorded; of those amounts, \$395,605 is due to the decrease in the applicable tax rate utilized to tax affect the deferred tax assets that was caused by a state income tax law change. The remaining provision (benefit) of \$6,753 and \$(353,720) for the three and six months ended December 31, 2014, respectively, were based upon income (loss) before provision for income taxes using an estimated annual effective income tax rate of 69% for the fiscal year ending June 30, 2015 and the effect of a change in estimated state income tax rates, the effect of which is treated discretely.

A provision for income taxes of \$6,912 and \$13,823 (all income deferred taxes) was recorded for the three and six months ended December 31, 2013, respectively. This provision for income taxes was not a function of nor related to income before income taxes because the Company had significant operating loss carryforwards available to negate any taxable income that would create current liabilities for income taxes. The provision for income taxes related to the amortization of indefinite life intangible assets and goodwill that were being amortized for income tax purposes but not for financial reporting purposes giving rise to a basis difference in such assets between financial and income tax reporting. The resulting deferred tax liabilities related to the amortization of indefinite life assets were not subject to offset against deferred tax assets with finite lives.

8. COMMON STOCK, COMMON STOCK OPTIONS AND WARRANTS

Under the 2011 Stock Incentive Plan, the Company recorded no stock compensation expense and no shares of Common Stock vested during the three months ended December 31, 2014; and, the Company recorded \$604 of stock compensation expense and 10,002 shares of Common Stock vested during the six months ended December 31, 2014 related to shares granted to Directors of the Company in July 2012.

Under the 2012 Stock Incentive Plan, the Company recorded stock compensation expense of \$5,205 and \$14,478 and 2,500 and 60,182 shares of Common Stock vested during the three and six months ended December 31, 2014, respectively. All of the expense and 5,000 of the shares vested in the six months ended December 31, 2014 related to a grant in 2014 to a non-executive employee. Additionally, 23,698 and 31,484 of the shares were issued in the six months ended December 31, 2014 related to payment to Directors for services on the Board of Directors in the fourth quarter of fiscal 2014 and to certain non-executive employees for fiscal 2014 performance, respectively.

USA Technologies, Inc.
Notes to Consolidated Financial Statements

8. COMMON STOCK, COMMON STOCK OPTIONS AND WARRANTS (CONTINUED)

Under the 2013 Stock Incentive Plan, the Company recorded stock compensation expense of \$78,581 and \$155,262 and 20,139 and 107,375 shares of Common stock were issued during the three and six months ended December 31, 2014. These amounts include expenses and issuances to Directors and non-executive employees, as well as expenses and issuances to the Company's executives under the 2014 and expenses under the 2015 Long Term Stock Incentive Plans ("LTI Stock Plans") as more fully described below. Stock compensation expense of \$46,250 and \$82,501 related to the vesting of shares for Directors in lieu of cash payment for services on the Board of Directors and 20,139 shares of Common Stock were issued during the three and six months ended December 31, 2014. No expense and 68,633 of shares were issued during the six months ended December 31, 2014 to certain non-executive employees for fiscal 2014 performance.

During the three and six months ended December 31, 2014, the Company recorded stock compensation expense of \$8,587 and \$17,174 for shares vesting June 30, 2015 and 2016 and issued 0 and 18,603 shares of Common Stock for shares vested on June 30, 2014, respectively, on account of the 2014 LTI Stock Plan under the 2013 Stock Incentive Plan.

On August 28, 2014, the Board of Directors approved the 2015 LTI Stock Plan covering Stephen P. Herbert, Chairman and Chief Executive Officer, and David M. DeMedio, Chief Financial Officer. The 2015 LTI Stock Plan provides that each executive officer would be awarded shares of common stock of the Company in the event that certain metrics relating to the Company's 2015 fiscal year would result in specified ranges of year-over-year percentage growth. The metrics are total number of connections as of June 30, 2015 as compared to total number of connections as of June 30, 2014 and adjusted EBITDA earned during the 2015 fiscal year as compared to adjusted EBITDA earned during the 2014 fiscal year.

If none of the minimum threshold year-over-year percentage target goals are achieved, the executive officers would not be awarded any shares. If all of the year-over-year percentage target goals are achieved, the executive officers would be awarded shares having the following value: Stephen P. Herbert – \$341,227 (100% of base salary); and David M. DeMedio – \$178,406 (75% of base salary). If all of the maximum distinguished year-over-year percentage target goals are achieved, the executive officers would be awarded shares having the following value: Mr. Herbert – \$682,454 (200% of base salary); and Mr. DeMedio – \$356,812 (150% of base salary). Assuming the minimum threshold year-over-year percentage target goal would be achieved for a particular metric, the number of shares to be awarded for that metric would be determined on a pro rata basis, provided that the award would not exceed the maximum distinguished award for that metric. The shares awarded under the 2015 LTI Stock Plan would vest as follows: one-third at the time of issuance (June 30, 2015); one-third on the first anniversary of issuance; and one-third on the second anniversary of issuance. The Company recorded stock compensation expense of \$23,744 and \$55,587 during the three and six months ended December 31, 2014, respectively, on account of the 2015 LTI Stock Plan.

During the three and six months ended December 31, 2014, non-executive employees of the Company cancelled shares of Common Stock for the payment of payroll taxes, including 16,849 and 31,899 shares of the Company's Common Stock to satisfy \$30,834 and \$61,987 of related payroll obligations, respectively.

During the three and six months ended December 31, 2013, the Company recorded stock compensation expense of \$104,464 and \$188,856 and 70,013 and 132,696 shares of Common Stock were issued, respectively; \$60,064 and \$121,336 of expenses related to compensation for Directors of the Company; \$44,401 and \$64,140 of expense related to compensation of Company executives; and, a reversal of compensation expense of \$0 and \$5,527 for non-executive employees of the Company for the three and six months ended December 31, 2013, respectively.

During the three and six months ended December 31, 2013, executive officers exercised their rights to cancel shares of Common Stock awarded to them under prior employment agreements and the Special Equity Plan granted to an executive officer in September 2012 for the payment of payroll taxes, including 21,179 and 28,558 shares of the Company's Common Stock to satisfy \$33,429 and \$47,375 of related payroll obligations, respectively.

COMMON STOCK OPTIONS

On August 28, 2014, the Board of Directors awarded options to purchase common stock under the Company's 2014 Stock Option Incentive Plan to each of Messrs. Herbert and DeMedio.

USA Technologies, Inc.
Notes to Consolidated Financial Statements

8. COMMON STOCK, COMMON STOCK OPTIONS AND WARRANTS (CONTINUED)

Mr. Herbert was awarded incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code), to purchase up to 55,555 shares at an exercise price of \$1.80 per share. The options vest on September 1, 2015, and expire if not exercised prior to September 1, 2021. Mr. Herbert was also awarded non-qualified stock options to purchase up to 150,000 shares at an exercise price of \$1.80 per share. The options vest as follows: one-third on September 1, 2015; one-third on September 1, 2016; and one-third on September 1, 2017. The options expire if not exercised prior to September 1, 2021.

Mr. DeMedio was awarded incentive stock options intended to qualify under Section 422 of the Code to purchase up to 33,333 shares at an exercise price of \$1.80 per share. The options vest on September 1, 2015, and expire if not exercised prior to September 1, 2021. Mr. DeMedio was also awarded non-qualified stock options to purchase up to 90,000 shares at an exercise price of \$1.80 per share. The options vest as follows: one-third on September 1, 2015; one-third on September 1, 2016; and one-third on September 1, 2017. The options expire if not exercised prior to September 1, 2021.

The Company estimates the grant date fair value of the stock options it grants using a Black-Scholes valuation model. The Company's assumption for expected volatility is based on its historical volatility data related to market trading of its own common stock. The Company bases its assumptions for expected life of the new stock option grants on the life of the option granted, and if relevant, its analysis of the historical exercise patterns of its stock options. The dividend yield assumption is based on dividends expected to be paid over the expected life of the stock option. The risk-free interest rate assumption is determined by using the U.S. Treasury rates of the same period as the expected option term of each stock option.

The fair value of options granted during September 2014 was estimated at the grant date using the following weighted average assumptions:

	<u>September 2014</u>
Expected volatility	79%
Expected life	7 years
Expected dividends	0.00%
Risk-free interest rate	2.04%

There were no options granted during the three months ended December 31, 2014 or the three and six months ended December 31, 2013. During the three and six months ended December 31, 2014, the Company recorded compensation expense of \$74,789 and \$99,719, respectively, related to the stock options granted to the executive officers of the company in August 2014 under the 2014 Stock Option Incentive Plan.

For the three and six months ended December 31, 2014, the Company recorded compensation expense of \$27,316 and \$54,632, respectively, for stock options granted in the fiscal year ended June 30, 2014 to its non-employee Directors under the 2014 Stock Option Incentive Plan.

COMMON STOCK WARRANTS

No warrants were issued, exercised or expired during the three and six months ended December 31, 2014. Warrants were exercised during the three and six months ended December 31, 2013, resulting in the issuance of 1,972,085 and 2,090,226, respectively, shares of Common Stock at \$1.13 per share. On December 31, 2013, warrants to purchase 58,527 shares of Common stock, exercisable at \$1.13 per share, expired unexercised. On September 14, 2013 warrants to purchase 903,955 shares of Common Stock, exercisable at \$5.90 per share, expired unexercised.

9. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

In June 2014, the Company and Varilease Finance, Inc. ("Varilease"), entered into six Sale Leaseback Agreements (the "Sale Leaseback Agreements" or a "Sale Leaseback Agreement") pursuant to which Varilease purchased ePort equipment owned by the Company and used by the Company in its JumpStart Program. As of June 30, 2014, Varilease completed the purchase from the Company, the ePort equipment under the first two of the Sale Leaseback Agreements as described in our Annual Report on Form 10-K for the year ended June 30, 2014.

USA Technologies, Inc.
Notes to Consolidated Financial Statements

9. COMMITMENTS AND CONTINGENCIES (CONTINUED)

In September 2014, Varilease completed the purchase from the Company of the ePort equipment described in the last four of the Sale Leaseback Agreements.

Upon the completion of the sale under these agreements, the Company computed a gain on the sale of its ePort equipment, which is deferred and will be amortized in proportion to the related gross rental charged to expense over the lease terms in accordance with the FASB topic ASC 840-40, "Sale Leaseback Transactions". The computed gain on the sale will be recognized ratably over the 36-month term and charged as a reduction to the Company's JumpStart rent expense included in costs of services in the Company's consolidated statement of operations. The Company is accounting for the Sale Leaseback as an operating lease and is obligated to pay to Varilease a base monthly rental for this equipment during the 36-month lease term.

Upon the completion of the sale, the Company computed a gain on the sale of its ePort equipment as follows:

	Year ended June 30, 2014	Six months ended December 31, 2014 (unaudited)	Total
Rental equipment sold, cost	\$ 1,918,920	\$ 3,873,275	\$ 5,792,195
Rental equipment sold, accumulated depreciation upon sale	(76,032)	(331,069)	(407,101)
Rental equipment sold, net book value	1,842,888	3,542,206	5,385,094
Proceeds from sale	2,995,095	4,993,879	7,988,974
Gain on sale of rental equipment	<u>\$ 1,152,207</u>	<u>\$ 1,451,673</u>	<u>\$ 2,603,880</u>

The following table summarizes the changes in deferred gain for the six months ended December 31, 2014 from the sale leaseback transactions:

	Six months ended December 31, 2014 (unaudited)
Beginning balance, June 30, 2014	\$ 1,142,685
Gain on sale of rental equipment	1,451,673
Recognition of deferred gain	(403,424)
Ending balance, December 31, 2014	2,190,934
Less current portion	860,390
Non-current portion of deferred gain	<u>\$ 1,330,544</u>

The Company is obligated to pay Varilease a base monthly rental of approximately \$220,000 for this equipment during the 36-month lease term. Future minimum lease payments subsequent to December 31, 2014 are as follows:

	Operating Leases from Sale Leaseback (unaudited)
2015 (remaining six months)	\$ 1,320,578
2016	2,641,155
2017	2,641,155
2018	137,731
Total minimum lease payments	<u>\$ 6,740,619</u>

USA Technologies, Inc.
Notes to Consolidated Financial Statements

9. COMMITMENTS AND CONTINGENCIES (CONTINUED)

2015 STI PLAN

On August 28, 2014, the Board of Directors approved the Fiscal Year 2015 Short-Term Incentive Plan (the "2015 STI Plan") covering Stephen P. Herbert, Chairman and Chief Executive Officer, and David M. DeMedio, Chief Financial Officer.

The 2015 STI Plan provides that each executive officer would earn a cash bonus in the event that the Company achieved during the 2015 fiscal year certain annual financial goals and certain annual specific performance goals relating to the executive officer which are to be established by the Compensation Committee.

If none of the minimum threshold target goals are achieved, the executive officers would not earn a cash bonus. If all of the target goals are achieved, the executive officers would earn a cash bonus as follows: Mr. Herbert – \$136,500 (40% of base salary); and Mr. DeMedio – \$59,469 (25% of base salary). If all of the maximum distinguished target goals are achieved, the executive officers would earn a cash bonus as follows: Mr. Herbert – \$273,000 (80% of base salary); and Mr. DeMedio – \$118,938 (50% of base salary). Assuming the minimum threshold target goal would be achieved for a particular metric, the amount of the cash bonus to be earned would be determined on a pro rata basis, provided that the bonus would not exceed the maximum distinguished award for that metric.

During the three and six months ended December 31, 2014, the Company recorded expense of \$19,737 and \$46,198 and a corresponding liability, respectively, for the 2015 STI Plan.

LITIGATION

From time to time, the Company is involved in various legal proceedings arising during the normal course of business which, in the opinion of the management of the Company, will not have a material adverse effect on the Company's financial position and results of operations or cash flows.

On December 30, 2014, the Company settled a legal action brought in connection with a customer billing dispute. Under the settlement, the Company agreed to pay approximately \$690,000. Approximately \$280,000 of this amount was recorded in fiscal 2014 and \$410,000 of this amount was recorded in the three months ended September 30, 2014 and was reflected in Cost of Services in the Consolidated Statements of Operations.

10. SUBSEQUENT EVENTS

In February 2015, the Company entered into a Purchase and Sale Agreement (the "QS Sale Agreement") with an equipment leasing company related to the Company's QuickStart Program (Notes 1 and 2). Under the QS Sale Agreement, the Company received \$1,752,717 in exchange for assigning to the leasing company its rights to all of the future lease payments under certain existing QuickStart leases between the Company and its customers. Under a separate Vendor Agreement between the Company and the same equipment leasing company, and subject to the terms and conditions thereof, the Company may in the future sell its ePort equipment to the leasing company, and the leasing company would enter into a QuickStart lease directly with the customer.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, 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, "estimate," "could," "should," "would," "likely," "may," "will," "plan," "intend," "believes," "expects," "anticipates," "projected," 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:

- general economic, market or business conditions;
- the ability of the Company to raise funds in the future through sales of securities or debt financing in order to sustain its operations if an unexpected or unusual event would occur;
- the ability of the Company to compete with its competitors to obtain market share;
- whether the Company's current or future customers purchase, lease, rent or utilize ePort devices or our other products in the future at levels currently anticipated by our Company, including appropriate diversification resulting from sources other than our JumpStart Program;
- whether the Company's customers continue to utilize the Company's transaction processing and related services, as our customer agreements are generally cancelable by the customer on thirty to sixty days' notice;
- the ability of the Company to satisfy its trade obligations included in accounts payable and accrued expenses;
- the incurrence by us of any unanticipated or unusual non-operating expenses which would require us to divert our cash resources from achieving our business plan;
- the ability of the Company to predict or estimate its future quarterly or annual revenues and expenses given the developing and unpredictable market for its products;
- the ability of the Company to retain key customers from whom a significant portion of its revenues are derived;
- the ability of a key customer to reduce or delay purchasing products from the Company;
- the ability of the Company to obtain widespread commercial acceptance of its products and service offerings such as ePort QuickConnect, mobile payment and loyalty and prepaid programs;
- whether any patents issued to the Company will provide the Company with any competitive advantages or adequate protection for its products, or would be challenged, invalidated or circumvented by others;
- the ability of our products and services to avoid unauthorized hacking or credit card fraud;
- whether our suppliers would increase their prices, reduce their output or change their terms of sale; and
- the ability of the Company to operate without infringing the proprietary rights of others.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Actual results or business conditions may differ materially from those projected or suggested in forward-looking statements as a result of various factors including, but not limited to, those described above. We cannot assure you that we have identified all the factors that create uncertainties. Moreover, new risks emerge from time to time and it is not possible for our management to predict all risks, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements. Readers should not place undue reliance on forward-looking statements.

Any forward-looking statement made by us in this Form 10-Q speaks only as of the date of this Form 10-Q. Unless required by law, we undertake no obligation to publicly revise any forward-looking statement to reflect circumstances or events after the date of this Form 10-Q or to reflect the occurrence of unanticipated events.

RESULTS OF OPERATIONS

Three months ended December 31, 2014 compared to the three months ended December 31, 2013

Results for the quarter ended December 31, 2014 continued to demonstrate growth in the Company's revenues and connections to its service as compared to the quarter ended December 31, 2013. Highlights of year over year improvements include:

- Recurring license and transaction fee revenue up 21% to \$10.5 million; and
- Total connections to its ePort Connect service base as of December 31, 2014 up 29% as compared to December 31, 2013.

Revenues for the quarter ended December 31, 2014 were \$12,820,937, consisting of \$10,479,496 of license and transaction fees and \$2,341,441 of equipment sales, compared to \$10,570,514 for the quarter ended December 31, 2013, consisting of \$8,671,085 of license and transaction fees and \$1,899,429 of equipment sales. The increase in total revenue of \$2,250,423, or 21%, was primarily due to an increase in license and transaction fees of \$1,808,411, or 21%, and an increase in equipment sales of \$442,012 or 23%, from the same period in the prior fiscal year.

We derive the majority of our revenues from license and transaction fees resulting from connections to, as well as services provided by, our ePort Connect service. The majority of ePort Connect customers pay a monthly fee plus a blended transaction rate on the transaction dollar volume processed by the Company. Connections to the ePort Connect service, therefore, are the most significant driver of the Company's revenues, particularly revenues from license and transaction fees. Connections to our service stem from our POS electronic payment devices or certified payment software or the servicing of similar third-party installed POS electronic payment devices. Customers can obtain POS electronic payment devices from us in the following ways:

- Purchasing devices directly from the Company or one of its authorized resellers;
- Leasing devices under the Company's QuickStart Program, which are non-cancellable sixty month sales-type leases; and
- Renting devices under the Company's JumpStart Program, which are cancellable month-to-month operating leases.

The Company counts its ePort connections upon shipment of an active terminal to a customer under contract, at which time activation on its network is performed by the Company, and the terminal is capable of conducting business via the Company's network and related services. An ePort connection does not necessarily mean that the unit is actually installed by the customer on a machine, or that the unit has begun processing transactions, or that the Company has begun receiving monthly service fees in connection with the unit. Rather, at the time of shipment of the ePort, the customer becomes obligated to pay the one-time activation fee, if applicable, and is obligated to pay monthly service fees in accordance with the terms of the customer's contract with the Company.

Revenue from license and transaction fees, which represented 82% of total revenue for each of the quarters ended December 31, 2014 and 2013, is primarily attributable to monthly ePort Connect® service fees and transaction processing fees. Highlights for the quarter ended December 31, 2014 include:

- Adding 12,000 net connections to our service, consisting of 14,000 new connections to our ePort Connect service in the quarter, offset by 2,000 deactivations, compared to 7,000 net connections added in the same quarter of fiscal 2014;
- As of December 31, 2014, the Company had approximately 288,000 connections to the ePort Connect service compared to approximately 224,000 connections to the ePort Connect service as of December 31, 2013, an increase of 64,000 connections, or 29%;
- Increases in the number of small-ticket, credit/debit transactions and dollars handled for the quarter ended December 31, 2014 of 27% and 29%, respectively, compared to the same period a year ago; and
- ePort Connect customer base grew 39% from December 31, 2013.

The increase in license and transaction fees was due to the growth in ePort Connect service fees and transaction dollars that stems from the increased number of connections to our ePort Connect service. As of December 31, 2014, the Company had approximately 288,000 connections to the ePort Connect service as compared to approximately 224,000 connections to the ePort Connect service as of December 31, 2013. During the quarter ended December 31, 2014, the Company added approximately 12,000 net connections to its network compared to approximately 7,000 net connections added during the quarter ended December 31, 2013.

Pursuant to its agreements with customers, in addition to ePort Connect service fees, the Company earns transaction processing fees equal to a percentage of the dollar volume processed by the Company. During the quarter ended December 31, 2014, the Company processed approximately 51.0 million transactions totaling approximately \$89.3 million compared to approximately 40.2 million transactions totaling approximately \$69.1 million during the quarter ended December 31, 2013, an increase of approximately 27% in the number of transactions and approximately 29% in the value of transactions processed.

New customers added to our ePort® Connect service during the quarter ended December 31, 2014 totaled 550, bringing the total number of customers to approximately 8,450 as of December 31, 2014. The Company added approximately 475 new customers in the quarter ended December 31, 2013. By comparison, the Company had approximately 6,075 customers as of December 31, 2013, representing 2,375 customers added, or a 39% increase during the past twelve months. The Company views the total installed base of machines managed by its customers that have yet to transition to cashless payment, as a key strategic opportunity for future growth in connections. In addition, we believe our growing customer base is indicative of a broadening adoption and acceptance of cashless payments in the industries we serve. We count a customer as a new customer upon the signing of their ePort Connect service agreement. When a reseller sells our ePort, we count a customer as a new customer upon the signing of the applicable services agreement with the customer.

The \$442,012 increase in equipment revenue was a result of an increase of approximately \$523,000 in sales of ePort® products, offset by a decrease of approximately \$83,000 in sales of Energy Misers. The \$523,000 increase in ePort products was directly attributable to selling more units during the period due to the reintroduction of the Company's QuickStart Program in September 2014. The QuickStart Program qualifies for sales-type lease accounting where equipment revenue and a corresponding finance receivable is recognized upon shipment.

Cost of sales consisted of license and transaction fee related costs of \$7,157,840 and \$5,495,385 and equipment costs of \$1,929,841 and \$1,244,996 for the quarters ended December 31, 2014 and 2013, respectively. The increase in total cost of sales of \$2,347,300, or 35%, was primarily due to an increase in cost of services of \$1,662,455 that stemmed from the greater number of connections to the Company's ePort Connect service and increases in transaction dollars processed by those connections. In addition, the increase in cost of equipment sales of \$684,845 was primarily due to selling more ePort devices due to the reintroduction of the Company's QuickStart Program.

Gross profit ("GP") for the quarter ended December 31, 2014 was \$3,733,256 compared to GP of \$3,830,133 from the same quarter in the prior fiscal year, a decrease of \$96,877, or 3%, of which \$242,833 is attributable to a decrease in equipment sales GP, offset by an increase of \$145,956 attributable to license and transaction fees GP. Overall gross profit margins decreased from 36% to 29% due to a decrease in license and transaction fee margins to 32%, from 37% in the prior corresponding fiscal quarter, and by a decrease in equipment sales margins to 18% from 34% in the prior corresponding fiscal quarter. License and transaction fees margins decreased due to the impact of certain JumpStart connections added during the 2014 fiscal year with fee grace periods under sales incentives, as well as approximately \$445,000 of quarterly net rent expense related to the Sale Leaseback transactions, which is approximately \$155,000 higher than the quarterly depreciation the Company would have recorded on the ePorts, had the Sale Leaseback transactions not occurred. The decrease in equipment revenue margins is attributable to sales incentives offered with the QuickStart Program as well as having approximately \$295,000 less in activation fees, which are a higher margin revenue source and which to date are not part of the QuickStart Program.

Selling, general and administrative ("SG&A") expenses of \$3,530,064 for the quarter ended December 31, 2014, increased by \$336,496, or 11%, from the same quarter in the prior fiscal year; approximately \$172,000, or 51% of the increase, were non-cash expenses. The overall increase in SG&A is attributable to increases of approximately \$198,000 in employee compensation and benefits expenses, \$89,000 in bad debt estimates, and \$75,000 in research and development expenses, offset by a net decrease of \$26,000 for various other expenses.

Other income and expense for the quarter ended December 31, 2014, primarily consisted of \$135,402 of non-cash gain for the change in the fair value of the Company's warrant liabilities. The primary factor affecting the change in fair value is the decrease in the Black-Scholes value of the warrants from September 30, 2014 to December 31, 2014, which factored in the decrease in the Company's stock price during that period.

The quarter ended December 31, 2014 resulted in a net loss of \$260,915 compared to net income of \$409,191 for the quarter ended December 31, 2013. Included in the net loss for the quarter ended December 31, 2014 is a non-cash charge of \$395,605 as a component of our tax provision for the effect on our deferred tax assets for a state income tax law change.

For the quarter ended December 31, 2014, net loss per common share (basic and diluted) was \$0.01, compared to net earnings per common share (basic and diluted) of \$0.01, for the prior corresponding fiscal quarter.

Non-GAAP net loss for the quarter ended December 31, 2014 was \$712, essentially breakeven, compared to non-GAAP net income of \$447,087 for the quarter ended December 31, 2013. Non-GAAP net earnings (loss) per common share, basic and diluted, was \$(0.00) and \$0.01 for the quarters ended December 31, 2014 and 2013, respectively. Management believes that non-GAAP net income (loss) and non-GAAP net income (loss) per common share are important measures of USAT's business. Management uses the aforementioned non-GAAP measures to monitor and evaluate ongoing operating results and trends and to gain an understanding of our comparative operating performance. We believe that these non-GAAP financial measures serve as useful metrics for our management and investors because they enable a better understanding of the long-term performance of our business and facilitate comparisons of our operating results over multiple periods, and when taken together with the corresponding GAAP (United States' Generally Accepted Accounting Principles) financial measures and our reconciliations, enhance investors' overall understanding of our current financial performance.

A reconciliation of GAAP net income (loss) to Non-GAAP net income (loss) for the quarters ended December 31, 2014 and 2013 is as follows:

	Three months ended December 31,	
	2014	2013
Net income (loss)	\$ (260,915)	\$ 409,191
Non-GAAP adjustments:		
Fair value of warrant adjustment	(135,402)	37,896
Tax provision charge from state tax law changes	395,605	-
Non-GAAP net income (loss)	<u>\$ (712)</u>	<u>\$ 447,087</u>
Net income (loss)	\$ (260,915)	\$ 409,191
Non-GAAP net income (loss)	\$ (712)	\$ 447,087
Cumulative preferred dividends	-	-
Net income (loss) applicable to common shares	<u>\$ (260,915)</u>	<u>\$ 409,191</u>
Non-GAAP net income (loss) applicable to common shares	<u>\$ (712)</u>	<u>\$ 447,087</u>
Net earnings (loss) per common share - basic	<u>\$ (0.01)</u>	<u>\$ 0.01</u>
Non-GAAP net earnings (loss) per common share - basic	<u>\$ -</u>	<u>\$ 0.01</u>
Weighted average number of common shares outstanding	35,657,519	34,136,884
Net earnings (loss) per common share - diluted	<u>\$ (0.01)</u>	<u>\$ 0.01</u>
Non-GAAP net earnings (loss) per common share - diluted	<u>\$ -</u>	<u>\$ 0.01</u>
Diluted weighted average number of common shares outstanding	35,657,519	34,222,731

As used herein, non-GAAP net income (loss) represents GAAP net income (loss) excluding costs or benefits relating to any adjustment for fair value of warrant liabilities and a state income tax law change. As used herein, non-GAAP net income (loss) per common share is calculated by dividing non-GAAP net income (loss) applicable to common shares by the weighted average number of shares outstanding.

For the quarter ended December 31, 2014, the Company had Adjusted EBITDA of \$1,681,056, compared to \$1,892,672 for the quarter ended December 31, 2013. Reconciliation of GAAP net income (loss) to Adjusted EBITDA for the quarters ended December 31, 2014 and 2013 is as follows:

	Three months ended December 31,	
	2014	2013
Net income (loss)	\$ (260,915)	\$ 409,191
Less interest income	(4,015)	(4,714)
Plus interest expense	49,429	60,405
Plus income tax expense	402,358	6,912
Plus depreciation expense	1,443,710	1,278,518
Plus change in fair value of warrant liabilities	(135,402)	37,896
Plus stock-based compensation	<u>185,891</u>	<u>104,464</u>
Adjusted EBITDA	<u>\$ 1,681,056</u>	<u>\$ 1,892,672</u>

As used herein, Adjusted EBITDA represents net income (loss) before interest income, interest expense, income taxes, depreciation, change in fair value of warrant liabilities and stock-based compensation expense. We have excluded the non-operating item, change in fair value of warrant liabilities, because it represents a non-cash charge that is not related to the Company's operations. We have excluded the non-cash expense, stock-based compensation, as it does not reflect the cash-based operations of the Company. Adjusted EBITDA is a non-GAAP financial measure which is not required by or defined under GAAP (Generally Accepted Accounting Principles). The presentation of this financial measure is not intended to be considered in isolation or as a substitute for the financial measures prepared and presented in accordance with GAAP, including the net income or net loss of the Company or net cash used in operating activities. Management recognizes that non-GAAP financial measures have limitations in that they do not reflect all of the items associated with the Company's net income or net loss as determined in accordance with GAAP, and are not a substitute for or a measure of the Company's profitability or net earnings. Adjusted EBITDA is presented because we believe it is useful to investors as a measure of comparative operating performance and liquidity, and because it is less susceptible to variances in actual performance resulting from depreciation and non-cash charges for changes in fair value of warrant liabilities and stock-based compensation expense.

Six months ended December 31, 2014 compared to the six months ended December 31, 2013

Results for the six months ended December 31, 2014 continued to demonstrate growth in the Company's revenues and connections to its service as compared to the six months ended December 31, 2013. Highlights of year over year improvements include:

- Recurring license and transaction fee revenue up 20% to \$20.6 million; and
- Total connections to its ePort Connect service base as of December 31, 2014 up 29% as compared to December 31, 2013.

Revenues for the six months ended December 31, 2014 were \$25,073,539, consisting of \$20,635,718 of license and transaction fees and \$4,437,821 of equipment sales, compared to \$20,693,572 for the six months ended December 31, 2013, consisting of \$17,178,129 of license and transaction fees and \$3,515,443 of equipment sales. The increase in total revenue of \$4,379,967, or 21%, was primarily due to an increase in license and transaction fees of \$3,457,589, or 20%, and an increase in equipment sales of \$922,378 or 26%, from the same period in the prior fiscal year.

We derive the majority of our revenues from license and transaction fees resulting from connections to, as well as services provided by, our ePort Connect service. The majority of ePort Connect customers pay a monthly fee plus a blended transaction rate on the transaction dollar volume processed by the Company. Connections to the ePort Connect service, therefore, are the most significant driver of the Company's revenues, particularly revenues from license and transaction fees. Connections to our service stem from our POS electronic payment devices or certified payment software or the servicing of similar third-party installed POS electronic payment devices. Customers can obtain POS electronic payment devices from us in the following ways:

- Purchasing devices directly from the Company or one of its authorized resellers;
- Leasing devices under the Company's QuickStart Program, which are non-cancellable sixty month sales-type leases; and
- Renting devices under the Company's JumpStart Program, which are cancellable month-to-month operating leases.

The Company counts its ePort connections upon shipment of an active terminal to a customer under contract, at which time activation on its network is performed by the Company, and the terminal is capable of conducting business via the Company's network and related services. An ePort connection does not necessarily mean that the unit is actually installed by the customer on a machine, or that the unit has begun processing transactions, or that the Company has begun receiving monthly service fees in connection with the unit. Rather, at the time of shipment of the ePort, the customer becomes obligated to pay the one-time activation fee, if applicable, and is obligated to pay monthly service fees in accordance with the terms of the customer's contract with the Company.

Revenue from license and transaction fees, which represented 82% and 83% of total revenue for the six months ended December 31, 2014 and 2013, respectively, is primarily attributable to monthly ePort Connect® service fees and transaction processing fees. Highlights for the six months ended December 31, 2014 include:

- Adding 22,000 net connections to our service, consisting of 27,000 new connections to our ePort Connect service in the six month period, offset by 5,000 deactivations, compared to 10,000 net connections added in the same six month period of fiscal 2014;
- As of December 31, 2014, the Company had approximately 288,000 connections to the ePort Connect service compared to approximately 224,000 connections to the ePort Connect service as of December 31, 2013, an increase of 64,000 connections, or 29%;
- Increases in the number of small-ticket, credit/debit transactions and dollars handled for the six months ended December 31, 2014 of 27% and 30%, respectively, compared to the same period a year ago; and
- ePort Connect customer base grew 39% from December 31, 2013.

The increase in license and transaction fees was due to the growth in ePort Connect service fees and transaction dollars that stems from the increased number of connections to our ePort Connect service. As of December 31, 2014, the Company had approximately 288,000 connections to the ePort Connect service as compared to approximately 224,000 connections to the ePort Connect service as of December 31, 2013. During the six months ended December 31, 2014, the Company added approximately 22,000 net connections to its network compared to approximately 10,000 net connections added during the six months ended December 31, 2013.

Pursuant to its agreements with customers, in addition to ePort Connect service fees, the Company earns transaction processing fees equal to a percentage of the dollar volume processed by the Company. During the six months ended December 31, 2014, the Company processed approximately 99.7 million transactions totaling approximately \$178.4 million compared to approximately 78.7 million transactions totaling approximately \$137.0 million during the six months ended December 31, 2013, an increase of approximately 27% in the number of transactions and approximately 30% in the value of transactions processed.

New customers added to our ePort® Connect service during the six months ended December 31, 2014 totaled 1,150, bringing the total number of customers to approximately 8,450 as of December 31, 2014. The Company added approximately 1,025 new customers in the six months ended December 31, 2013. By comparison, the Company had approximately 6,075 customers as of December 31, 2013, representing 2,375 customers added, or a 39% increase during the past twelve months. The Company views the total installed base of machines managed by its customers that have yet to transition to cashless payment, as a key strategic opportunity for future growth in connections. In addition, we believe our growing customer base is indicative of a broadening adoption and acceptance of cashless payments in the industries we serve. We count a customer as a new customer upon the signing of their ePort Connect service agreement. When a reseller sells our ePort, we count a customer as a new customer upon the signing of the applicable services agreement with the customer.

The \$922,378 increase in equipment revenue was a result of an increase of approximately \$1,142,000 in sales of ePort® products, offset by a decrease of approximately \$229,000 in sales of Energy Misers. The \$1,142,000 increase in ePort products was directly attributable to selling more units during the period due to the reintroduction of the Company's QuickStart Program in September 2014. The QuickStart Program qualifies for sales-type lease accounting where equipment revenue and a corresponding finance receivable is recognized upon shipment.

Cost of sales consisted of license and transaction fee related costs of \$14,408,947 and \$10,904,848 and equipment costs of \$3,796,098 and \$2,375,820 for the six months ended December 31, 2014 and 2013, respectively. The increase in total cost of sales of \$4,924,377, or 37%, was primarily due to an increase in cost of services of \$3,504,099 that stemmed from the greater number of connections to the Company's ePort Connect service, increases in transaction dollars processed by those connections and a charge to settle a customer billing dispute. In addition, the increase in cost of equipment sales of \$1,420,278 was primarily due to selling more ePort devices due to the reintroduction of the QuickStart Program.

Gross profit ("GP") for the six months ended December 31, 2014 was \$6,868,494 compared to GP of \$7,412,904 from the same six month period in the prior fiscal year, a decrease of \$544,410, or 7%, of which \$497,900 is attributable to license and transaction fees GP, and \$46,510 of which is attributable to equipment sales GP. Overall gross profit margins decreased from 36% to 27% due to a decrease in license and transaction fee margins to 30%, from 37% in the prior corresponding fiscal six month period, and by a decrease in equipment sales margins to 14% from 32% in the prior corresponding fiscal six month period. License and transaction fees margins decreased due to the impact of certain JumpStart connections added during the 2014 fiscal year with fee grace periods under sales incentives, as well as approximately \$825,000 of six months of net rent expense related to the Sale Leaseback transactions, which is approximately \$246,000 higher than the depreciation the Company would have recorded on the ePorts during the six month period, had the Sale Leaseback transactions not occurred. Also contributing to the decrease of license and transaction fee margins was the recognition of approximately \$410,000 in connection with a customer billing dispute as more fully described in Note 9 to our consolidated financial statements. The decrease in equipment revenue margins is attributable to sales incentives offered with the QuickStart Program as well as having approximately \$275,000 less in activation fees, which are a higher margin revenue source which to date are not part of the QuickStart Program.

Selling, general and administrative ("SG&A") expenses of \$7,162,551 for the six months ended December 31, 2014, increased by \$673,639, or 10%, from the same six months in the prior fiscal year; approximately \$341,000, or 51% of the increase, were non-cash expenses. The overall increase in SG&A is attributable to increases of approximately \$363,000 in employee compensation and benefits expenses, \$205,000 in bad debt estimates, \$67,000 in utility and insurance expenses, and by a net increase of \$39,000 for various other expenses.

Other income and expense for the six months ended December 31, 2014, primarily consisted of \$445,454 of non-cash gain for the change in the fair value of the Company's warrant liabilities. The primary factor affecting the change in fair value is the decrease in the Black-Scholes value of the warrants from June 30, 2014 to December 31, 2014, which factored in the decrease in the Company's stock price during that period.

The six months ended December 31, 2014 resulted in a net loss of \$321,871 compared to net income of \$702,845 for the six months ended December 31, 2013. Included in the net loss for the six months ended December 31, 2014 is a non-cash charge of \$395,605 as a component of our tax provision for the effect on our deferred tax assets for a state income tax law change. After preferred dividends of \$332,226 in each six month period, net income (loss) applicable to common shareholders was \$(654,097) and \$370,619 for the six months ended December 31, 2014 and 2013, respectively. For the six months ended December 31, 2014, net loss per common share (basic and diluted) was \$0.02, compared to net earnings per common share (basic and diluted) of \$0.01, for the prior corresponding six month period.

Non-GAAP net loss for the six months ended December 31, 2014 was \$371,720, compared to non-GAAP net income of \$521,644 for the six months ended December 31, 2013. Non-GAAP net earnings (loss) per common share was \$(0.02) and \$0.01 for the six months ended December 31, 2014 and 2013, respectively. Management believes that non-GAAP net income (loss) and non-GAAP net earnings (loss) per common share are important measures of USAT's business. Management uses the aforementioned non-GAAP measures to monitor and evaluate ongoing operating results and trends and to gain an understanding of our comparative operating performance. We believe that these non-GAAP financial measures serve as useful metrics for our management and investors because they enable a better understanding of the long-term performance of our business and facilitate comparisons of our operating results over multiple periods, and when taken together with the corresponding GAAP (United States' Generally Accepted Accounting Principles) financial measures and our reconciliations, enhance investors' overall understanding of our current financial performance.

A reconciliation of GAAP net income (loss) to Non-GAAP net income (loss) for the six months ended December 31, 2014 and 2013 is as follows:

	Six months ended	
	December 31,	
	2014	2013
Net income (loss)	\$ (321,871)	\$ 702,845
Non-GAAP adjustments:		
Fair value of warrant adjustment	(445,454)	(181,201)
Tax provision charge from state tax law changes	395,605	-
Non-GAAP net income (loss)	<u>\$ (371,720)</u>	<u>\$ 521,644</u>
Net income (loss)	\$ (321,871)	\$ 702,845
Non-GAAP net income (loss)	\$ (371,720)	\$ 521,644
Cumulative preferred dividends	(332,226)	(332,226)
Net income (loss) applicable to common shares	<u>\$ (654,097)</u>	<u>\$ 370,619</u>
Non-GAAP net income (loss) applicable to common shares	<u>\$ (703,946)</u>	<u>\$ 189,418</u>
Net earnings (loss) per common share - basic and diluted	<u>\$ (0.02)</u>	<u>\$ 0.01</u>
Non-GAAP net earnings (loss) per common share - basic and diluted	<u>\$ (0.02)</u>	<u>\$ 0.01</u>
Weighted average number of common shares outstanding - basic	35,625,199	33,730,590

As used herein, non-GAAP net income (loss) represents GAAP net income (loss) excluding costs or benefits relating to any adjustment for fair value of warrant liabilities and a state income tax law change. As used herein, non-GAAP net income (loss) per common share is calculated by dividing non-GAAP net income (loss) applicable to common shares by the weighted average number of shares outstanding.

For the six months ended December 31, 2014, the Company had Adjusted EBITDA of \$2,626,620, compared to \$3,346,006 for the six months ended December 31, 2013. Reconciliation of GAAP net income (loss) to Adjusted EBITDA for the six months ended December 31, 2014 and 2013 is as follows:

	Six months ended	
	December 31,	
	2014	2013
Net income (loss)	\$ (321,871)	\$ 702,845
Less interest income	(14,097)	(18,240)
Plus interest expense	124,340	121,381
Plus income tax expense	41,885	13,823
Plus depreciation expense	2,917,122	2,496,589
Plus amortization expense	-	21,953
Plus change in fair value of warrant liabilities	(445,454)	(181,201)
Plus stock-based compensation	324,695	188,856
Adjusted EBITDA	<u>\$ 2,626,620</u>	<u>\$ 3,346,006</u>

As used herein, Adjusted EBITDA represents net income (loss) before interest income, interest expense, income taxes, depreciation, amortization, change in fair value of warrant liabilities and stock-based compensation expense. We have excluded the non-operating item, change in fair value of warrant liabilities, because it represents a non-cash charge that is not related to the Company's operations. We have excluded the non-cash expense, stock-based compensation, as it does not reflect the cash-based operations of the Company. Adjusted EBITDA is a non-GAAP financial measure which is not required by or defined under GAAP (Generally Accepted Accounting Principles). The presentation of this financial measure is not intended to be considered in isolation or as a substitute for the financial measures prepared and presented in accordance with GAAP, including the net income or net loss of the Company or net cash used in operating activities. Management recognizes that non-GAAP financial measures have limitations in that they do not reflect all of the items associated with the Company's net income or net loss as determined in accordance with GAAP, and are not a substitute for or a measure of the Company's profitability or net earnings. Adjusted EBITDA is presented because we believe it is useful to investors as a measure of comparative operating performance and liquidity, and because it is less susceptible to variances in actual performance resulting from depreciation and amortization and non-cash charges for changes in fair value of warrant liabilities and stock-based compensation expense.

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended December 31, 2014, net cash used in operating activities was \$4,444,217 as a result of a net loss of \$321,871 and net cash used in the change in operating assets and liabilities of \$6,870,825, offset by net non-cash charges of \$2,748,479. Of the \$2,748,479 of net non-cash items, the most significant during the six month period were charges related to depreciation of assets, the vesting and issuance of common stock and options for employee and director compensation, and bad debt expenses, offset by the decrease in the fair value of warrant liabilities and the benefit related to the recognition of deferred gain from sale-leaseback transactions. The cash used in the \$6,870,825 change in the Company's operating assets and liabilities was primarily the result of increases in inventory and finance receivables and decreases in accounts payable. The increase in finance receivables was directly related to the reintroduction of the QuickStart Program in September 2014.

During the six months ended December 31, 2014, the cash provided by investing activities was \$3,336,428, of which \$4,993,879 related to the proceeds from the sale of rental equipment under the Sale Leaseback transactions, offset by \$1,641,993 for the purchase of equipment for the JumpStart Program, net of approximately \$378,000 for the decrease in JumpStart equipment on hand at December 31, 2014 when compared to June 30, 2014. Approximately 18% of gross new connections added during the six months ended December 31, 2014 were from our JumpStart Program, which was lower than anticipated due to increased connections added through our QuickStart Program which constituted 36% of gross connections added during the six months ended December 31, 2014.

During the six months ended December 31, 2014, the Company used cash of \$1,230,454 through financing activities, of which \$1,000,000 was for the repayment of a portion of its outstanding balance on its Line of Credit, \$168,467 was for the repayment of debt, and \$61,987 was used in the retirement of Common Stock for payroll taxes.

We experienced losses from inception through June 30, 2012, with net income for the years ended June 30, 2013 and 2014. Our accumulated deficit through December 31, 2014 is composed of cumulative losses amounting to approximately \$171,100,000, preferred dividends converted to common stock of approximately \$2,690,000, and charges incurred for the open-market purchases of preferred stock of approximately \$150,000.

Adjusted EBITDA for the six months ended December 31, 2014 was \$2,626,620. The Company reports Adjusted EBITDA to reflect the liquidity of operations and a measure of operational cash flow. Adjusted EBITDA excludes significant non-cash charges such as income tax, depreciation, fair value warrant liability changes and stock and equity-based compensation from net income (loss). We believe that, provided there are no unusual or unanticipated material non-operational expenses, achieving positive Adjusted EBITDA is sustainable, and will increase, as our connection base increases.

The Company anticipates using the JumpStart and QuickStart Programs for up to approximately 60% to 65% of its anticipated gross connections for the remainder of the fiscal year. Cash used for the JumpStart and QuickStart Programs is classified as investing and operating activities on the Company's Consolidated Statements of Cash Flows, respectively. Accordingly, depending upon the composition of connections added under each of the JumpStart and QuickStart Programs as well as the success of the QuickStart third party leasing program referred to in the next sentence, the Company may generate positive cash flow from operations during the remainder of the 2015 fiscal year. In February 2015, the Company signed a Vendor Agreement with an equipment leasing company pursuant to which, and subject to the terms and conditions thereof, the Company may sell its cashless hardware to the leasing company, who in turn, would then lease the equipment directly to our customers. We believe this third party leasing program, if successful, would allow us to reduce, and perhaps even eliminate, the use of the Company's cash flows from operations for the QuickStart Program. In addition, the Company has efforts under way in sales, marketing, development and partnering efforts to secure connections from sources other than JumpStart and QuickStart, such as QuickConnect Web service, ePort Mobile, and direct sales of its ePort hardware device.

The Company had two sources of cash available to fund and grow the business as of December 31, 2014: (1) cash on hand of approximately \$6.7 million; and (2) \$3 million available on the line of credit with Avidbank, provided we continue to satisfy the various covenants set forth in the loan agreement. In addition, during February 2015, we entered into a Purchase and Sale Agreement with the same equipment leasing company referred to above pursuant to which the leasing company paid us approximately \$1.7 million in exchange for assigning our rights to all of the future lease payments on certain existing finance receivables. Lastly, the Company believes the capital markets, debt and equity, would be available to provide additional sources of cash, if required.

Therefore, the Company believes its existing cash and available cash resources as of December 31, 2014, would provide sufficient funds through at least July 1, 2015 in order to meet its cash requirements, including payment of its accrued expenses and payables, any cash resources to be utilized for the JumpStart Program, QuickStart Program, other anticipated capital expenditures, and the repayment of long-term debt.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes to our market risk since June 30, 2014. For a discussion of our exposure to market risk, refer to Part II, Item 7A. "Quantitative and Qualitative Disclosures about Market Risk," contained in our Annual Report on Form 10-K for the year ended June 30, 2014.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

The principal executive officer and principal financial officer have evaluated the Company's disclosure controls and procedures as of December 31, 2014. Based on this evaluation, they conclude that the disclosure controls and procedures were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

There have been no changes during the quarter ended December 31, 2014 in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Part II - Other Information.

Item 6. Exhibits

Exhibit Number	Description
10.1	VISA Incentive Agreement dated as of November 1, 2014 between the Company and VISA U.S.A., Inc. (Portions of this exhibit were redacted pursuant to a confidentiality treatment request)
31.1	Certifications of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certifications of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1	Certification of the Chief Executive Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

Date: February 17, 2015

USA TECHNOLOGIES, INC.

/s/ Stephen P. Herbert
Stephen P. Herbert,
Chief Executive Officer

Date: February 17, 2015

/s/ David M. DeMedio
David M. DeMedio
Chief Financial Officer

PORTIONS OF THIS AGREEMENT HAVE BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS, WHICH ARE MARKED BY ASTERISKS (“***”).

**VISA U.S.A. INC.
VISA INCENTIVE AGREEMENT**

Effective Date: This Visa incentive agreement (the “**agreement**”) is effective as of November 1, 2014 (“**Effective Date**”), but only if Visa has received from USAT an executed counterpart of this agreement on or before November 30, 2014. Otherwise, this agreement will not become effective.

Term of Agreement: The term of this agreement begins on the Effective Date and will expire on October 31, 2017 (“**Term**”); unless terminated earlier in accordance with section 5 of schedule A.

Visa Contact: ***

Visa Phone Number: ***

Visa Facsimile Number: ***

USAT Contact: Stephen P. Herbert

USAT Phone Number: 610-989-0340

USAT Facsimile Number:

This agreement is between **VISA U.S.A. INC.**, a Delaware corporation, with its principal place of business at 900 Metro Center Boulevard, Foster City, California 94404 (mailing address P.O. Box 8999, San Francisco, CA 94128-8999) (“**Visa**”) and USA Technologies, Inc., a Pennsylvania corporation, with its principal place of business at 100 Deerfield Lane, Suite 140, Malvern, PA 19355 (“**USAT**”).

USAT has entered into agreements with various merchants (each a “**USAT Customer**” or collectively the “**USAT Customers**”), whereby USAT provides to each USAT Customer gateway transaction processing services and related hardware and software solutions for the acceptance of Visa Cards, which are used for payment at vending machines owned and operated by a USAT Customer, and USAT has an agreement with an Acquirer, and desires to receive the incentives offered by Visa.

Visa operates a retail electronic payments network and desires to provide USAT with incentives to encourage and reward USAT for the growth of its acceptance of payment devices featuring a Visa-owned brand.

USAT desires to avail itself of the opportunity to receive the incentives offered by Visa.

The parties agree as set forth in this cover page and in all of the schedules and riders attached hereto, and all such schedules and riders are part of this agreement.

AGREED:
VISA U.S.A. INC.
(“Visa”)

USA Technologies, Inc.
(“USAT”)

By: /s/ ***
Name: ***
Title: ***
Date: 11/14/14

By: /s/David M. DeMedio
Name: David M. DeMedio
Title: CFO
Date: 11/12/14

SCHEDULE A

STANDARD TERMS AND CONDITIONS

1. DEFINITIONS. In addition to any terms defined elsewhere in this agreement, the terms below have the following meanings for purposes of this agreement:

“**Acquirer**” refers to a Visa Member that affiliates merchants for the acceptance of Cards bearing Visa-owned brands and acquires and interchanges, with issuers of Cards bearing Visa-owned brands, transactions generated at those merchants with the use of those Cards.

“**Affiliates**” refers to entities that during the Term, directly or indirectly, own or control a party, are owned or controlled by a party or are under common ownership or control with a party.

“**Card**” refers to a card and any other device, technology, or medium (including without limitation, key fobs, micro tags, and mobile phones) through which branded payment services are delivered.

“**Cash Transactions**” means convenience checks, balance transfers, and cash disbursements, including automatic teller machine and manual cash disbursements, point-of-sale cash back transactions and prepaid Card funding transactions.

“**Change of Control**” refers to the consummation by USAT of a transaction or series of related transactions in which any one or more of the following occurs: (i) any person becomes the beneficial owner, directly or indirectly, of 25% or more of USAT’s then outstanding common stock or then outstanding voting securities entitled to vote generally in the election of directors (or comparable governing body if such party is not a corporation); (ii) the sale, lease, exchange or other disposition of 50% or more of all of USAT’s consolidated assets or of USAT’s then outstanding common stock or then outstanding voting securities entitled to vote generally in the election of directors (or comparable governing body if such party is not a corporation); or (iii) consummation, or approval by the shareholders of USAT of a complete liquidation or dissolution or a plan of complete liquidation or dissolution of USAT.

“**Claims**” refers to personal injury, property losses, damages (including lost profits or savings and indirect, incidental, consequential, exemplary, punitive, and special damages), losses, penalties, fines, suits, expenses, and costs (including attorney’s fees and investigation expenses).

“**CPS**” or “**Custom Payment Services**” means a Visa payment service that accommodates specific payment environments with an identifier that remains with the transaction throughout its life cycle.

“**Credit Card**” refers to a general purpose revolving or non-revolving consumer, business, or commercial payment card issued in the Territory that may be used to secure credit by accessing an unsecured or secured open-end credit account pursuant to which the cardholder may make purchases, obtain cash advances or convenience checks, or transfer balances.

“**Debit Card**” means a Card issued or approved for use to debit an asset account, such as a demand deposit account or savings account, whether authorization is based on a signature or PIN, and including prepaid Cards.

“**EFTA**” refers to The Electronic Fund Transfer Act, as amended.

“**Eligible Merchant Category Code**” refers to any one of the MCC’s listed or named in schedule D of this agreement.

“**Fraud-Prevention Adjustment**” refers to the additional amount that, pursuant to Section 235.4 of Part III of the Regulations, may be added to any Interchange Transaction Fee that an issuer may receive in accordance with Section 235.3 of Part II of the Regulations.

“**Incentive Quarter**” refers to each three-month period during the Term, starting with the three-month period that begins on the Effective Date.

“**Included Merchant Location**” refers to any stand-alone unattended vending or self-serve retail machine physically located in the Territory that is: owned and/or operated by a USAT Customer and for which USAT facilitates Card payment functionality or gateway services. For the purposes of this agreement, unattended DVD rental machines owned or operated by USAT or a USAT Customer are not included as an Included Merchant Location.

“**IRF**” refers to the Interchange Reimbursement Fee, as such term is defined in the Visa Operating Regulations.

“**Liability**” refers to any liability under any theory or form of action whatsoever, in law or in equity, including, without limitation, contract or tort, including negligence, even if the party in question has been notified of the possibility of such damages, including, without limitation, liability for infringement of others’ intellectual property rights or any liability for Claims of third parties.

“**MCC**” or “**Merchant Category Code**” refers to a code designating the principal trade, profession, or line of business in which a merchant is engaged, as specified in the Visa Operating Regulations.

“**MVV**” or “**Merchant Verification Value**” refers to a value assigned by Visa used to identify participation in select merchant programs.

“**Non-Regulated Visa Debit Transaction**” refers to a transaction originated on a Visa Debit Card, excluding Regulated Debit Card Transactions, that are routed for authorization, clearing and settlement through ***, or ***.

“**Other Credit Cards**” refers to a Credit Card that is branded with a name or trademark not owned by Visa.

“**Other Credit Card Transaction**” refers to a transaction that originated on an Other Credit Card.

“**Other Debit Cards**” refers to a Debit Card that is branded with a name or trademark not owned by Visa.

“**Other Non-Regulated Debit Card Transaction**” refers to a transaction that originated on an Other Debit Card, excluding Regulated Debit Card Transactions.

“**Other Regulated Debit Card Transaction**” refers to a Regulated Debit Card Transactions originated on an Other Debit Card.

“**Regulated Debit Card**” is a ‘Debit Card’ (as such term is defined in Section 920(c)(2) of EFTA) transactions, including transactions originated on the types of Cards listed in 920(a)(7)(B) of EFTA, but excluding transactions originated on the types of Cards listed in Sections 920(a)(6) and 920(a)(7)(A) of EFTA.

“**Regulated Debit Card Transactions**” refers to a transaction initiated on a ‘Debit Card’ (as such term is defined in Section 920(c)(2) of EFTA), including transactions originated on the types of Cards listed in 920(a)(7)(B) of EFTA, but excluding transactions originated on the types of Cards listed in Sections 920(a)(6) and 920(a)(7)(A) of EFTA.

“**Regulated Visa Debit Transaction**” refers to a Regulated Debit Card Transaction that originated on Visa Debit Card that is routed for authorization, clearing, and settlement through ***, and net of credits and chargebacks and excluding Cash Transactions.

“**Regulations**” refers to the ‘Debit Card Interchange Fees and Routing; Final Rule,’ as amended from time to time, published as 12 CFR Part 235 on Wednesday, July 20, 2011 in Vol. 76, No. 139 of the Federal Register of the United States of America.

“**Territory**” refers to all of the 50 States of the United States of America and the District of Columbia.

“**Unattended Visa Debit Transactions**” refers to a Regulated Debit Card Transaction that originated on Visa Debit Card and assigned Category Code excluding ***, that is routed for authorization, clearing, and settlement through *** or ***, and net of credits and chargebacks and excluding Cash Transactions.

“**Visa Cards**” refers to Visa Debit Cards and Visa Credit Cards.

“**Visa Credit Card**” refers to a Visa-branded consumer or commercial credit Card.

“**Visa Credit Transaction**” refers to a transaction originated on a Visa Credit Card, that contains the appropriate MVV, and that is routed for authorization, clearing, and settlement through *** or ***, and that is net of credits, chargebacks, and excluding Cash Transactions.

“**Visa Debit Card**” refers to a Visa-branded consumer Debit Card.

“**Visa Debit Transaction**” refers to a transaction originated on a Visa Debit Card that is routed for authorization, clearing, and settlement through ***and that is net of credits, chargebacks, and excluding Cash Transactions.

“**Visa Member**” refers to an entity that participates in Visa’s payment services as a member of Visa U.S.A. Inc. with rights and obligations defined in the Visa Operating Regulations and is authorized to operate one or more Visa programs subject to specific trademark license agreements and the Visa Operating Regulations.

“**Visa Operating Regulations**” refers to the operating regulations of Visa International, as amended from time to time (published at <http://usa.visa.com/download/merchants/visa-international-operating-regulations-main.pdf>), applicable to operations in the Territory.

“**Volume**” refers collectively to the *** volume generated from Non-Regulated Visa Debit Transactions, Visa Credit Transactions, Regulated Visa Debit Transactions and Unattended Visa Debit Transactions.

2. REPRESENTATIONS AND WARRANTIES.

USAT and Visa each warrants and represents to the other that: (i) it has full corporate power and authority to execute, deliver, and perform this agreement; (ii) the person signing this agreement on its behalf has been properly authorized and empowered to enter into this agreement; and (iii) this agreement is its legal, valid, and binding obligation and is enforceable against it in accordance with the terms contained in this agreement.

3. **USE OF TRADE AND SERVICE MARKS.** Nothing in this agreement gives either party a license or other right to use the trademarks, service marks, trade dress, corporate name, logos, brands, copyrights, or other intellectual property of the other party.

4. CONFIDENTIALITY.

(a) Except as otherwise permitted under subsection (d) of this section 4, for the Term and a period of 7 years after the expiration or termination of this agreement, the party to whom disclosures are made (“**Recipient**”) shall:

(i) use the Confidential Information only for the purpose this agreement contemplates;

(ii) restrict disclosure of the Confidential Information to: (A) employees, contractors, subcontractors, agents, and consultants of Recipient and (B) legal, financial, and tax advisors of the Recipient; and in each case, (I) provided the persons described in subsections (A), (B), and (C) of this section 4(a) (ii) of schedule A are subject to legal obligations to the Recipient restricting disclosure and use of confidential or proprietary information to the degree necessary to comply with the provisions in section 4 of schedule A; and (II) in each case only to the extent each such person has a need to know (each, a “**Permitted Party**”);

(iii) not disclose the Confidential Information to any other person or entity apart from those described in paragraph (ii) above without the prior written consent of the party that disclosed the Confidential Information hereunder (“**Discloser**”);

(iv) advise those Permitted Parties who access the Confidential Information of their obligations with respect thereto; and

(v) copy the Confidential Information only as necessary for the purposes this agreement contemplates, and ensure that all confidentiality notices that may appear on the originals are reproduced in full on such copies.

(b) *Return of Confidential Information.* Confidential Information, including permitted copies, shall be deemed the property of the Discloser; provided that the terms of this agreement shall be deemed the joint property of Visa and Merchant. Except as necessary to effect the limited purpose for which its Confidential Information was disclosed under this agreement, the Discloser does not grant to the Recipient any right or license under, in or to any intellectual property or other right of the Discloser that may pertain to such Confidential Information. Promptly upon the written request of Discloser, the Recipient will return to the Discloser, or at Recipient's option destroy, all physical embodiments of Discloser's Confidential Information (or any designated portion thereof), including all copies thereof, to the Discloser. The Recipient also shall certify in writing that it has satisfied its obligations under this Paragraph within ten calendar days of a written request by the Discloser.

(c) *Definition of Confidential Information and Need to Know.*

(i) Subject to subsection (c)(ii) of this section 4, "**Confidential Information**" refers to: (A) the terms of this agreement and (B) any information or data disclosed by the Discloser which: (I) if in tangible form, is marked clearly as proprietary or confidential; (II) if oral, is identified as proprietary, confidential, or private on disclosure; or (III) regardless of the form in which it is embodied or the manner in which it is disclosed, the Recipient should reasonably understand to be confidential; provided, however, that such information or data is provided under or in contemplation of this agreement (including without limitation, the financial terms of the proposal that Visa provided to USAT in order to facilitate USAT's internal evaluation of such proposal and the negotiations that led to this agreement); and as used in paragraph (a)(ii) above, "**need to know**" means that the Permitted Party requires the Confidential Information to perform its responsibilities in connection with this agreement.

(ii) The term "Confidential Information" excludes information that Recipient can demonstrate: (A) is or becomes available to the public through no breach of this agreement; (B) was previously known by the Recipient without any obligation to hold it in confidence; (C) is received from a third party who Recipient reasonably believes is free to disclose such information without restriction; or (D) is independently developed by the Recipient without the use of Confidential Information of the Discloser.

(d) *Exceptions.* Either party may disclose the other party's Confidential Information: (i) if the other party provides its prior written approval or (ii) in response to a court order or a requirement of law, regulation, or a governmental body of the United States or any political subdivisions thereof applicable to the Recipient or its Affiliate (a "**Required Disclosure**"), but only to the extent of and for the purposes of such Required Disclosure, and only if the Recipient (to the extent legally permitted) first notifies the Discloser of the Required Disclosure and affords the Discloser a reasonable opportunity under the circumstances to seek an appropriate protective order. Notwithstanding the foregoing, either party may disclose this agreement pursuant to a Required Disclosure and may do so without prior notice to the other party provided that this agreement is designated as "Highly Confidential -- Outside Counsel's Eyes Only" under an applicable protective order or confidentiality agreement or is otherwise protected from disclosure to third parties by operation of law.

(e) *USAT Communications with its Prospective Merchant Clients.* Visa recognizes that in order for USAT to offer to provide the benefits of the Promotional IRF Rates to its prospective merchant clients, USAT will need to share with prospective merchant clients: (i) the Merchant Participation Requirements (defined in section B of schedule C) and (ii) the **rate of** Promotional IRF Rates. To accommodate that, Visa agrees that communications (written or oral) from USAT to its prospective merchant clients that include: (i) the Merchant Participation Requirements and/or (ii) the **rate of** the Visa Debit Regulated Promotional IRF will not be deemed to be Visa Confidential Information so long as (1) each prospective merchant client is subject to legal obligations to USAT restricting disclosure and use of confidential or proprietary information to the degree necessary to comply with the provisions in this section 4, and (2) those communications (written and oral) do not in any way communicate or imply that Visa is the source of or in any way associated with (except, to the extent that the transactions subject of the communication are identified as Visa Card transactions): (A) the offer that USAT is making to its prospective merchants or (B) the Merchant Participation Requirements and the Promotional IRF Rates. For the avoidance of doubt, apart from the no-attribution to Visa, the foregoing and nothing in this agreement limits or sets requirements on USAT regarding the offers (including without limitation pricing and terms) that USAT may choose to make to its merchant clients, existing or prospective.

5. EARLY TERMINATION.

(a) *Material Breach.* If either party commits a material breach of its obligations under this agreement, the other party may terminate this agreement by giving the breaching party at least thirty calendar days' written notice prior to the effective date of termination, except that any such notice shall not result in termination if the breaching party cures that breach before the thirty-day notice period elapses. For purposes of this agreement, "**material breach**" means, with respect to a given breach, that a reasonable person in the position of the non-breaching party would wish to terminate this agreement because of that breach.

(b) *Automatic Termination.* This agreement will terminate immediately and automatically in the event that USAT is placed into receivership with a governmental entity, or a petition is filed by or against USAT under applicable bankruptcy law seeking the liquidation of USAT's assets (and, in the case of a petition filed against USAT, such petition is not dismissed within thirty calendar days).

(c) *Visa's Termination Rights Upon USAT Change of Control; Termination for Convenience.*

(i) Visa may terminate this agreement without liability if USAT is subject to a Change of Control event whereby USAT is controlled or acquired by a direct competitor of Visa. USAT shall give written notice to Visa promptly of the execution of an agreement that will result in such a Change of Control of USAT.

(ii) Either party may terminate this agreement for no reason at any time by providing ninety calendar days' prior written notice to the other party.

(d) *Other Termination Rights.* A party may elect to terminate this agreement in accordance with any other termination rights it may have elsewhere in this agreement.

(e) *Effect of Termination or Expiration.* All obligations and rights under this agreement will cease immediately and automatically as of the effective date of termination of this agreement or its expiration, and any provision that by its terms expressly survives or needs to survive to give effect to its purpose will also survive the termination or expiration of this agreement. The termination or expiration of this agreement will not have any effect on the VisaNet Agreement or USAT's participation in the Visa payment system.

6. TERRITORY; SCOPE; LIMITATION OF LIABILITY.

(a) The incentives offered under schedule B of this agreement only apply to Visa Card transactions (i) that are referenced in schedule B and (ii) that originate at the Included Merchant Locations.

(b) This agreement covers any new Included Merchant Locations that USAT creates through the normal course of business during the Term; however, it does not cover any new Included Merchant Locations that USAT or any Affiliate of USAT acquires during the Term from a third party (whether by purchase, merger, acquisition, or otherwise), unless Visa provides its prior written approval.

(c) USAT and Visa expressly acknowledge and agree that: (i) the sole objective of this agreement is for Visa to offer to USAT the benefit of the Promotional IRF Rates, subject to the terms and conditions in schedules B and C and in the rest of this agreement; and (ii) this agreement is not, and is not intended to be, an agreement for Visa to provide USAT or any third party with products, processing, services, programs, specifications, standards, software, hardware, or firmware of any kind, whether in connection with any Card transactions referenced in schedule B of this agreement that originated at an Included Merchant Location or elsewhere or otherwise.

(d) Apart from the express obligations of Visa set forth in this agreement, Visa shall have no other obligation to USAT under or arising out of this agreement. USAT's sole and exclusive redress and right of recovery for Claims and Liability due to or arising from the Visa products, processing, services, programs, specifications, standards, software, hardware, or firmware in connection with the transactions referenced in schedule B of the agreement that originated at Included Merchant Locations, will be against USAT's Acquirer or any other Visa Member or non-Visa Affiliate through which USAT participates in the ***. USAT understands and agrees that Visa will bear no risk with respect to USAT's services and/or products.

(e) THIS IS NOT A SERVICES AGREEMENT. VISA DOES NOT MAKE OR GIVE UNDER THIS AGREEMENT, AND HEREBY EXPRESSLY DISCLAIMS, ALL WARRANTIES, REPRESENTATIONS, OR CONDITIONS, BOTH EXPRESS AND IMPLIED, ARISING BY STATUTE OR OTHERWISE IN LAW, OR FROM COURSE OF DEALING OR USAGE OR TRADE, INCLUDING, BUT NOT LIMITED TO, ANY IMPLIED WARRANTY, REPRESENTATION, OR CONDITION OF MERCHANTABILITY, MERCHANTABLE QUALITY, OR FITNESS FOR ANY PURPOSE, PARTICULAR, SPECIFIC, OR OTHERWISE, OR ANY WARRANTY OF TITLE OR NON-INFRINGEMENT FOR ANY AND ALL PRODUCTS, PROCESSING, SERVICES, PROGRAMS, SPECIFICATIONS, STANDARDS, SOFTWARE, HARDWARE, OR FIRMWARE. EXCEPT FOR THE WARRANTIES AND REPRESENTATIONS MADE IN SECTION 2 OF THIS SCHEDULE A OF THIS AGREEMENT, VISA DOES NOT MAKE OR GIVE ANY OTHER WARRANTIES OR REPRESENTATION UNDER THIS AGREEMENT.

(f) UNDER NO CIRCUMSTANCES WILL EITHER PARTY BE LIABLE TO THE OTHER OR ANY OTHER PERSON OR ENTITY FOR ANY INDIRECT, SPECIAL, CONSEQUENTIAL, INCIDENTAL, EXEMPLARY, OR PUNITIVE DAMAGES EVEN IF IT HAD REASON TO KNOW OF THE POSSIBILITY OF SUCH DAMAGES, INCLUDING, WITHOUT LIMITATION, LOSS OF REVENUE, PROFITS OR BUSINESS. EXCEPT FOR AMOUNTS DUE USAT, IF ANY, IN ACCORDANCE WITH SCHEDULE B, IN NO EVENT WILL EITHER PARTY BE LIABLE IN THE AGGREGATE, FOR ANY CLAIMS, PROCEEDINGS, LIABILITIES, OBLIGATIONS, DAMAGES, LOSSES, OR COSTS RELATED TO OR ARISING OUT OF ANY SUBJECT MATTER OF THIS AGREEMENT, FOR ANY INDIVIDUAL OR RELATED SERIES OF CLAIMS OR LIABILITIES IN AN AMOUNT EXCEEDING TEN-THOUSAND UNITED STATES DOLLARS. THIS LIMITATION OF LIABILITY SECTION APPLIES WHETHER THE ALLEGED LIABILITY IS BASED ON CONTRACT, TORT, NEGLIGENCE, STRICT LIABILITY, OR ANY OTHER BASIS, EVEN IF VISA HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGE.

7. MISCELLANEOUS.

(a) *Relationship of the Parties.* The parties are independent contractors and this agreement does not create a partnership, joint venture, employee/employer or other agency relationship between them.

(b) *Assignments.* This agreement binds and benefits each of the parties and their respective permitted successors and assigns. No party may assign or transfer, in whole or in part, any of its rights under this agreement, voluntarily or involuntarily, whether by operation of law or any other manner, except as expressly permitted in this section or with the prior written consent of the other party. No party may delegate any performance under this agreement.

(c) *Notices.* All notices and other communications to be given under this agreement will be in writing and will be deemed to have been given and received: (i) when personally delivered; (ii) three business days after mailing, postage prepaid, by certified mail; (iii) one business day following dispatch by electronic mail to the electronic mail address identified on the cover page of this agreement; (iv) one business day following dispatch by facsimile to the facsimile address identified on the cover page of this agreement; or (v) one business day following dispatch by overnight delivery via a national or international courier service and, in each case, addressed to the party at the addresses set forth on the first page of this agreement (in the case of notices to Visa, a copy of any such notice will also be delivered to the Visa U.S.A. Legal Department, in care of the same Visa address), unless a different address will have been designated in writing.

(d) *Governing Law.* This agreement and all proceedings arising out of or in connection with this agreement will be governed by and interpreted solely according to the substantive laws of the State of New York without regard to its choice of law or conflict of laws principles. The parties hereby submit to the sole jurisdiction of the courts in the State of New York and agree that service of process may be effected through the notice procedure set forth in section 7(c) of schedule A.

(e) *Materials with Other Party's Name and Trademarks.* All written and broadcast materials created by or for a party including, without limitation, advertisements, marketing materials, press releases, point of purchase signage, mailings, and any other signage which relate to the other party or any materials that contain the name or trademark of the other party are subject to the other party's prior written approval, which may not be unreasonably withheld.

(f) *Public Disclosures.* Either party may disclose the existence of this agreement, but unless otherwise permitted under section 4(d) of this schedule A, neither party may disclose the terms of this agreement. Moreover, neither party may issue an independent press release or make any other public announcement, whether written, oral or otherwise, with respect to this agreement without the prior written consent of the other party.

(g) *Complete Agreement.* This agreement constitutes the entire agreement and understanding between Visa and USAT with respect to their rights and obligations set forth herein, and there are no other agreements, representations, warranties, or understandings between Visa and USAT with respect to such subject matter. Any change to this agreement must be in writing and signed by an authorized representative of each party. To the extent that any other agreement, written or verbal, appears to exist between the parties with respect to the subject matter hereof, this agreement supersedes any such agreement. All schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this agreement. This agreement has been fully reviewed and negotiated by the parties and their respective counsel.

(h) *Force Majeure.* Neither party will be liable to the other party for any loss, damage, cost, delay, or failure to perform in whole or in part resulting from causes beyond such party's control, including but not limited to fires, floods, storms, earthquakes, hurricanes, tornadoes, or other severe weather or climatic conditions; act of a public enemy, war, or terrorist attack, blockade, strikes, insurrections, riots, or requirements of any governmental authority.

(i) *Severability.* If any provision of this agreement is determined to be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions of this agreement will remain in full force and effect; however if the determination of such invalidity, illegality, or unenforceability has a significant effect, in the reasonable judgment of a party (the "**Affected Party**"), on the financial or commercial position of the Affected Party, the parties shall negotiate in good faith so as to replace each invalid, illegal, or unenforceable provision with a valid, legal, and enforceable provision which will, in effect, from an economic viewpoint, most nearly and fairly approach the effect of the invalid, illegal, or unenforceable provision; provided that both parties' rights and obligations under this agreement will cease thirty calendar days after the date the Affected Party notifies the other party that it wishes to renegotiate such invalid, illegal, or unenforceable provision if the parties are unable to reach a mutually acceptable agreement within those thirty calendar days.

(j) *No Third Party Beneficiaries.* This agreement does not confer any rights or remedies upon any person or entity other than the signatories to this agreement. Only signatories to this agreement have enforceable rights and remedies under this agreement.

(k) *Modifications and Waivers.* Any waiver of the provisions of this agreement or of a party's rights or remedies under this agreement must be in writing to be effective. Failure, neglect, or delay by a party to enforce the provisions of this agreement or its rights or remedies at any time may not be construed and will not be deemed to be a waiver of such party's rights under this agreement and will not in any way affect the validity of the whole or any part of this agreement or prejudice such party's right to take subsequent action.

(l) *Counterparts.* This agreement may be signed in counterparts, each of which will be deemed an original and all of which will constitute one and the same instrument. The agreement may also be signed and transmitted by email or facsimile, with such signature to be treated as an original and the document transmitted to be considered to have the same binding effect as an original signature on an original document. At the request of either party, any emailed or facsimiled document shall be re-executed in original form by the parties who signed the emailed or facsimiled document.

(m) *Signature Dates.* In the event that USAT returns an executed but undated copy of this agreement to Visa, USAT authorizes Visa to insert the date of Visa's receipt of the executed copy.

(n) *No Party a Drafter; Titles and Subtitles.* No party will be considered to be the drafter of this agreement or any provision hereof for the purpose of any statute, case law, or rule of interpretation or construction that would or might cause any provision to be construed against the drafter hereof. The titles and subtitles used in this agreement are for convenience only and are not to be considered in construing or interpreting this agreement.

(o) *Taxes.* USAT is responsible for any and all taxes which may be applicable to benefit of the Promotional IRF Rates.

[End of schedule A]

SCHEDULE B

1. INCENTIVES.

USAT, or USAT Customers may route any transaction initiated on a Visa Debit Card through any network enabled on such Card and nothing in this agreement requires or incents USAT to undertake any act or omission in violation of applicable law or regulation.

A. SCOPE OF INCENTIVES. ***

B. DEBIT REGULATED PROMOTIONAL IRF RATES.

- (i) During the Incentive Quarter that begins on the Effective Date Visa will make available systematically to USAT's Acquirer an IRF rate of *** (capped at \$0.21 plus the then-current Fraud-Prevention Adjustment) (the "**Visa Debit Regulated Promotional IRF Rate**") for each CPS-qualified consumer, face-to-face Regulated Visa Debit Transaction originated at a Included Merchant Location, ***, and routed for authorization, clearing, and settlement through *** (the "**Eligible Visa Debit Regulated Transactions**").
- (ii) **Furthermore**, subject to schedule C, **if** within ten calendar days of the end of any Incentive Quarter Visa receives from USAT the Quarterly Regulated Debit Certification in the form attached hereto as Rider 1 (the "**Quarterly Regulated Debit Certification**") for such Incentive Quarter, **then** Visa will continue to make available systematically to USAT's Acquirer the Visa Debit Regulated Promotional IRF Rate for the Eligible Visa Debit Regulated Transactions originated during the immediately following Incentive Quarter.
- (iii) **However**, subject to schedule C, if Visa does not receive a Quarterly Regulated Debit Certification within ten calendar days of the end of an Incentive Quarter, then Visa may at its sole discretion, upon ten calendar days' written notice to USAT, stop making available systematically the Visa Debit Regulated Promotional IRF Rate to USAT's Acquirer for the Eligible Visa Debit Regulated Transactions originated during all of the Incentive Quarters that follow; but if later Visa receives a Quarterly Regulated Debit Certification within ten calendar days of an Incentive Quarter, then Visa may at its sole discretion, within forty-five calendar days of the end of such Incentive Quarter, begin to again make available systematically the Visa Debit Regulated Promotional IRF Rate to USAT's Acquirer for the Eligible Visa Debit Regulated Transactions.

C. DEBIT NON-REGULATED PROMOTIONAL IRF RATES.

- (i) During the Incentive Quarter that begins on the Effective Date, Visa will make available systematically to USAT's Acquirer a promotional IRF rate of *** (the "**Non-Regulated Debit Promotional IRF Rate**") for each CPS-qualified consumer, face-to-face Non-Regulated Visa Debit Transaction originated at the Included Merchant Locations, ***, and routed for authorization, clearing, and settlement through *** (the "**Eligible Visa Debit Non-Regulated Transactions**").
- (ii) Furthermore, subject to schedule C, if within ten calendar days of the end of each Incentive Quarter Visa receives from USAT the Quarterly Non-Regulated Debit Certification in the form attached hereto as Rider 2 (the "**Quarterly Non-Regulated Debit Certification**") for the just completed Incentive Quarter, then Visa will continue to make available systematically to USAT's Acquirer the Non-Regulated Debit Promotional IRF Rate for the Eligible Visa Debit Non-Regulated Transactions originated during the immediately following Incentive Quarter.

- (iii) However, subject to schedule C, if Visa does not receive a Quarterly Non-Regulated Debit Certification within ten calendar days of the end of an Incentive Quarter, then Visa may at its sole discretion, upon ten calendar days' written notice to USAT, stop making available systematically the Non-Regulated Debit Promotional IRF Rate to USAT's Acquirer for the Eligible Visa Debit Non-Regulated Transactions originated during all of the Incentive Quarters that follow; but if later Visa receives a Quarterly Non-Regulated Debit Certification within ten calendar days of the end of the applicable Incentive Quarter, then Visa may at its sole discretion, within forty-five calendar days of the end of such Incentive Quarter, begin to again make available systematically the Non-Regulated Debit Promotional IRF Rate to USAT's Acquirer for the Eligible Visa Debit Non-Regulated Transactions.

D. CREDIT PROMOTIONAL IRF RATES.

- (i) During the Incentive Quarter that begins on the Effective Date, Visa will make available systematically to USAT's Acquirer a promotional IRF rate of *** (the "**Credit Promotional IRF Rate**") for each CPS-qualified consumer, face-to-face Visa Credit Transaction originated at the Included Merchant Locations, ***, and routed for authorization, clearing, and settlement through *** (the "**Eligible Visa Credit Transactions**").
- (ii) Furthermore, subject to schedule C, if within ten calendar days of any Incentive Quarter Visa receives from USAT the Quarterly Credit Certification in the form attached hereto as Rider 3 (the "**Quarterly Credit Certification**") for such Incentive Quarter, then Visa will continue to make available systematically to USAT's Acquirer the Credit Promotional IRF Rate for the Eligible Visa Credit Transactions originated during the immediately following Incentive Quarter.
- (iii) However, subject to schedule C, if Visa does not receive a Quarterly Credit Certification within ten calendar days of the end of an Incentive Quarter, then Visa may at its sole discretion, upon ten calendar days' written notice to USAT, stop making available systematically the Visa Credit Promotional IRF Rate to USAT's Acquirer for the Eligible Visa Credit Transactions originated during all of the Incentive Quarters that follow; but if later Visa receives a Quarterly Credit Certification within ten calendar days of the end of the applicable Incentive Quarter, then Visa may at its sole discretion, within forty-five calendar days of the end of such Incentive Quarter, begin to again make available systematically the Credit Promotional IRF Rate to USAT's Acquirer for the Eligible Visa Credit Transactions.

E. UNATTENDED DEBIT PROMOTIONAL IRF RATES.

- (i) During the Incentive Quarter that begins on the Effective Date, Visa will make available systematically to USAT's Acquirer a promotional IRF of *** (capped at \$0.21 plus the then-current Fraud-Prevention Adjustment) (the "**Unattended Debit Promotional IRF Rate**") for each CPS-qualified consumer, face-to-face Regulated Visa Debit Transaction originated at the Included Merchant Locations, excluding any Regulated Visa Debit Transaction that was***, and routed for authorization, clearing, and settlement through *** (the "**Eligible Unattended Visa Debit Transactions**") and collectively with the Eligible Visa Debit Regulated Transactions, the Eligible Visa Debit Non-Regulated Transactions, and the Eligible Visa Credit Transactions, the "**Eligible Transactions**").

- (ii) Furthermore, subject to schedule C, if within ten calendar days of the end of each Incentive Quarter Visa receives from USAT the Quarterly Unattended Regulated Debit Certification in the form attached hereto as Rider 4 (the “**Quarterly Unattended Regulated Debit Certification**”) for the just completed Incentive Quarter, then Visa will continue to make available systematically to USAT’s Acquirer the Unattended Debit Promotional IRF Rate for the Eligible Unattended Visa Debit Transactions originated during the immediately following Incentive Quarter.
- (iii) However, subject to schedule C, if Visa does not receive a Quarterly Unattended Regulated Debit Certification within ten calendar days of the end of an Incentive Quarter, then Visa may at its sole discretion, upon ten calendar days’ written notice to USAT, stop making available systematically the Unattended Debit Promotional IRF Rate to USAT’s Acquirer for the Eligible Unattended Visa Debit Transactions originated during all of the Incentive Quarters that follow; but if later Visa receives a Quarterly Unattended Regulated Debit Certification within ten calendar days of the end of the applicable Incentive Quarter, then Visa may at its sole discretion, within forty-five calendar days of the end of such Incentive Quarter, begin to again make available systematically the Unattended Debit Promotional IRF Rate to USAT’s Acquirer for the Eligible Unattended Visa Debit Transactions.

F. EXISTING AGREEMENT. Visa and USAT previously entered into a Visa U.S.A. Inc. Visa Promotional Agreement effective as of October 12, 2011, as amended by that First Amendment to the Visa U.S.A. Inc. Visa Promotional Agreement on October 14, 2012 (the “**Prior Agreement**”). Visa and USAT agree that the Prior Agreement will be terminated in its entirety as of the Effective Date (defined on the cover page of this agreement).

[End of schedule B]

SCHEDULE C

A. USAT PARTICIPATION REQUIREMENTS.

Visa will make available systematically to USAT's Acquirer the Promotional IRF Rates **only if** USAT complies at all times during the Term with all of the requirements in subsections (i) through (ii) of this section A of schedule C (the "**USAT Participation Requirements**");

- (i) Within thirty calendar days of the end of each Incentive Quarter, USAT shall provide Visa with a written certification ("**Quarterly USAT Certification**") addressed to Visa, signed by an officer of USAT, and on USAT letterhead that must include all of the following certifications that apply to such Incentive Quarter:
 - (1) USAT has only passed on, or authorized USAT's Acquirer to pass on, the benefits of the Promotional IRF Rates during such Incentive Quarter;
 - (2) USAT shall include a complete list of all of Included Merchant Locations during the Incentive Quarter and the date in which USAT or USAT's Acquirer began passing on the benefits of the Promotional IRF Rates;
 - (3) A certification that USAT has included the appropriate and unique MVV applicable to each of the Eligible Transactions generated during the Incentive Quarter.
 - (4) A certification that at least *** new Included Merchant Locations were created by USAT Customers during the Incentive Quarter and USAT must provide Visa the exact number of new Included Merchant Locations that were created during the Incentive Quarter.
- (ii) If USAT does not provide Visa a Quarterly USAT Certificate that includes all of the certifications listed above in section A(i) of this schedule C within thirty calendar days of the end of any Incentive Quarter during the Term, then Visa may, at its sole discretion, terminate this agreement by giving USAT at least thirty calendar days' written notice prior to the effective date of such termination.

B. CONDITIONS FOR AUTHORIZATION TO PASS ON BENEFITS TO USAT CUSTOMERS.

- (i) During each Incentive Quarter USAT may pass on, or authorize USAT's Acquirer to pass on, the benefit of the Promotional IRF Rates only to USAT Customers that meet all of the Merchant Participation Requirements at all times during the applicable Incentive Quarter.
- (ii) For the purposes of this agreement, during each Incentive Quarter during the Term, "**Merchant Participation Requirements**" means collectively all of the following conditions:
 - (1) At all times during the applicable Incentive Quarter all of the Included Merchant Locations must accept any and all Visa Cards.
 - (2) There may not be *** at any time during the applicable Incentive Quarter in respect of any of the Included Merchant Locations.

- (3) At all times during the applicable Incentive Quarter, the dollar amount of of the Transactions that originated at each of the Included Merchant Locations during such Incentive Quarter was \$***.
- (4) At all times during the applicable Incentive Quarter, the result of *** the aggregate amount of the Volume generated at all of the Included Merchant Locations during such Incentive Quarter *** the total number of Transactions generated during that same period at each of the Included Merchant Locations must be ***.
- (iii) In the event a USAT Customer ceases to be in compliance with any of the Merchant Participation Requirements, USAT shall (1) notify Visa, within ten calendar days of such non-compliance, in a writing signed by an officer of USAT and on USAT letterhead and (2) immediately stop passing on the benefit of the Promotional IRF Rates to such USAT Customer.

C. AGREEMENT AND ACKNOWLEDGEMENT REGARDING*.**

- (i) ***. USAT agrees and acknowledges that ***at all times during the Term is a material inducement to Visa offering and maintaining the Visa Debit Regulated Promotional IRF Rate, and that Visa may not offer and make available the Visa Debit Regulated Promotional IRF Rate if at any time during the Term***. In the event USAT determines or becomes aware that***, USAT shall, no later than ten (10) calendar days of making such determination or having knowledge of***, cease passing on, or instruct USAT's Acquirer to cease passing on, as applicable, the benefit of the Visa Debit Regulated Promotional IRF Rate to such USAT Customer.
- (ii) ***. USAT agrees and acknowledges that *** at all times during the Term is a material inducement to Visa offering and maintaining the Non-Regulated Debit Promotional IRF Rate, and that Visa may not offer and make available the Non-Regulated Debit Promotional IRF Rate if at any time during the Term***. In the event USAT determines or becomes aware that***, USAT shall, no later than ten (10) calendar days of making such determination or having knowledge of***, cease passing on, or instruct USAT's Acquirer to cease passing on, as applicable, the benefit of the Non-Regulated Debit Promotional IRF Rate to such Included Merchant Location.
- (iii) ***. USAT agrees and acknowledges that ***at all times during the Term is a material inducement to Visa offering and maintaining the Credit Promotional IRF Rate, and that Visa may not offer and make available the Credit Promotional IRF Rate if at any time during the Term***. In the event USAT determines or becomes aware that***, USAT shall, no later than ten (10) calendar days of making such determination or having knowledge of***, cease passing on, or instruct USAT's Acquirer to cease passing on, as applicable, the benefit of the Credit Promotional IRF Rate to such USAT Customer.
- (iv) ***. USAT agrees and acknowledges that *** at all times during the Term is a material inducement to Visa offering and maintaining the Unattended Debit Promotional IRF Rate, and that Visa may not offer and make available the Unattended Debit Promotional IRF Rate if at any time during the Term***. In the event USAT determines or becomes aware that***, USAT shall, no later than ten (10) calendar days of making such determination or having knowledge of***, cease passing on, or instruct USAT's Acquirer to cease passing on, as applicable, the benefit of the Unattended Debit Promotional IRF Rate to such USAT Customer.

D. RIGHT TO AUDIT.

- (i) Visa has the right to confirm the accuracy of any Quarterly USAT Certification. Upon Visa's request to USAT, USAT will permit Visa to work with USAT's external auditor to examine the books and records of USAT in order to confirm the accuracy of any Quarterly USAT Certification, and USAT shall provide to Visa or USAT's auditor any commercially reasonable information as to permit Visa to verify and confirm the assertions stated in the Quarterly USAT Certification. IF USAT's auditor does not work with Visa in accordance with this provision, then USAT must engage with its auditor and fulfill Visa's auditing rights under this provision. Visa's rights in this section will survive the termination or natural expiration of the Term.

E. MERCHANT DISCOUNT RATE; ACQUIRER IMPLEMENTATION. USAT acknowledges and agrees that: **(A)** Visa does not set the merchant discount rate charged to USAT or to USAT Customers by the Acquirer for Visa transactions, and that such discount rate is determined entirely through a separate agreement between USAT, USAT Customers, and the Acquirer; **(B)** it is USAT's or USAT Customers' sole responsibility to engage with the Acquirer and negotiate its merchant discount rate and other fees related to the acceptance of Visa Cards; **(C)** it is USAT's and USAT Customers' sole responsibility to engage with the Acquirer to ensure the Acquirer's systems are capable of accepting and processing the systemic application of the promotional IRF rates offered under this agreement for transactions generated at Included Merchant Locations; **(D)** in order for USAT and USAT Customers to enjoy the benefits of the promotional IRF rates offered under this agreement the Acquirer's systems must be adjusted to be capable of accepting and processing the systemic application of the Promotional IRF Rates for transactions generated at Included Merchant Locations; and **(E)** Visa is not responsible to USAT or USAT Customers for any expenses or fees the Acquirer may assess to USAT or USAT Customers in connection with the adjustments to the Acquirer's systems that are required in order for such systems to accept and process the systemic application of the Promotional IRF Rates offered under this agreement for transactions generated at Included Merchant Locations or for any expenses caused by a delay in the Acquirer to make any such adjustments.

F. COMPLIANCE. USAT warrants and represents to Visa that USAT and each of the USAT Customers shall comply with the terms and conditions of the acceptance agreement, as amended from time to time, between itself and its Acquirer ("**Acceptance Agreement**") that relate to the adherence to the Visa Operating Regulations.

G. MERCHANT VERIFICATION VALUE. USAT acknowledges and agrees that only Visa Card transactions that: (i) are routed for authorization, clearing, and settlement through the applicable *** at Included Merchant Locations and (ii) contain the assigned MVV and are processed by the Acquirer are eligible for the incentives described in Schedule B. Transactions that do not meet the foregoing criteria are not eligible to any of the incentives described in Schedule B.

H. CISP/PCI COMPLIANCE. If at any time during the Term, USAT and/or its service providers involved in processing, storing, transmitting, and/or handling any cardholder or transaction information (“**Service Providers**”) or a USAT Customer are not in compliance with the Payment Card Industry Data Security Standard in accordance with the Visa Cardholder Information Security Program (“**CISP**”) as described at www.visa.com/cisp or at a successor URL, as such standard may be amended from time to time (“**PCI Standard**”) in a material manner, **then** Visa may at its sole discretion: **(A)** upon thirty calendar days’ written notice to USAT, suspend Visa’s obligations under schedule B; or **(B)** terminate this agreement upon thirty calendar days’ written notice to USAT. In the event Visa chooses **(A)**, Visa’s obligations under schedule B will be suspended with respect to transactions occurring on and after the date that is thirty calendar days following the date when USAT, a Service Provider, or a USAT Customer first failed to meet the PCI Standard in a material manner, and will not be reinstated unless and until the parties agree otherwise in a written and mutually signed amendment to this agreement. In the event Visa chooses **(B)**, all of Visa’s obligations under schedule B will cease with respect to transactions occurring on and after the date that is thirty calendar days following the date when USAT, the Service Providers, or a USAT Customer first failed to meet the PCI Standard in a material manner. USAT warrants and represents to Visa that USAT, and, to its knowledge Service Providers and USAT Customers are as of the Effective Date, in compliance with the PCI Standard.

[End of schedule C]

SCHEDULE D

ELIGIBLE MERCHANT CATEGORY CODES

The benefit of the Promotional IRF Rates are available to, and may be passed on, only to the Included Merchant Locations with the MCC's enumerated below (each an "**Eligible Merchant Category Code**"); and USAT must ensure that such MCC's are assigned in accordance with the Visa Operating Regulations. At any time during the Term the parties can agree to amend this list of Eligible Merchant Category Codes to include more MCC's that the parties wish to include under this agreement. **In no instances will unattended *** locations with an MCC of *** or any other MCC be eligible for the Benefits.**

- (1) ***
- (2) ***
- (3) ***
- (4) ***
- (5) ***
- (6) ***
- (7) ***
- (8) ***
- (9) ***
- (10) ***
- (11) ***

-

[End of schedule D]

Rider 1

to

USA Technologies, Inc. Incentive Agreement

between

Visa U.S.A. Inc. and USA Technologies, Inc.

effective as of [____] (“Agreement”)

Form of

Quarterly Regulated Debit Certification

* * *

The language above in the header of this Rider 1 is only for purposes of identifying this document in the context of the Agreement.

* * *

Quarterly Regulated Debit Certification

Certification

USA Technologies, Inc. (“USAT”) confirms and certifies to Visa that, in respect of the three month period that started on [date] and concluded on [date] (the **“Relevant Quarter”**), all of the assertions in (i) through (v) below are true, accurate, and complete for each Eligible Merchant that USAT or USAT’s Acquirer passed along the benefit of the Visa Debit Regulated Debit IRF Rate to during the Relevant Quarter:

- (i) During the Relevant Quarter, the rate of the *** was *** the rate of the Visa Debit Regulated Promotional IRF Rate;
- (ii) During the Relevant Quarter, all of the Included Merchant Locations accepted any and all Visa Cards;
- (iii) All of the Included Merchant Locations are located in the Territory;
- (iv) The dollar amount of *** of the Regulated Visa Debit Transactions that originated at the Included Merchant Locations during the Relevant Quarter was \$***; and
- (v) The result of *** the aggregate amount of the *** volume from Regulated Visa Debit Transactions originated at all of the Included Merchant Locations during the Relevant Quarter *** the total number of Regulated Visa Debit Transactions originated during the Relevant Quarter at the Included Merchant Locations were *** than \$***.

Acknowledgment and Agreement

USAT acknowledges and agrees that the*** at all of the Included Merchant Locations at all times during the Term is a material inducement to Visa offering and make systematically available to USAT and USAT's Acquirer the Visa Debit Regulated Promotional IRF Rate, and that Visa may not offer and stop making systematically available the Visa Debit Regulated Promotional IRF Rate if at any time during the Term there is a *** at any of the Included Merchant Locations.

I certify that I am responsible for preparing this certification on behalf of USAT and that USAT used commercially reasonable diligence in determining the information necessary to make the assertions and certifications contained in this document in accordance with USAT's records and that to the best of my knowledge those assertions and certifications are true, accurate, and complete.

By: _____

Name: _____

Title: _____

(Must be an officer of USA Technologies, Inc.)

Date: _____

Rider 2

to

USA Technologies, Inc. Incentive Agreement

between

Visa U.S.A. Inc. and USA Technologies, Inc.

effective as of [_____] (“Agreement”)

Form of

Quarterly Non-Regulated Debit Certification

* * *

The language above in the header of this Rider 2 is only for purposes of identifying this document in the context of the Agreement.

* * *

Quarterly Non-Regulated Debit Certification

Certification

USA Technologies, Inc. (“USAT”) confirms and certifies to Visa that, in respect of the three month period that started on [date] and concluded on [date] (the **“Relevant Quarter”**), all of the assertions in (i) through (v) below are true, accurate, and complete for each Eligible Merchant that USAT or USAT’s Acquirer passed along the benefit of the Non-Regulated Debit Promotional IRF Rate to during the Relevant Quarter:

- (i) During the Relevant Quarter, the rate of the*** was*** the rate of the Non-Regulated Debit Promotional IRF Rate;
- (ii) During the Relevant Quarter, all of the Included Merchant Locations accepted any and all Visa Cards;
- (iii) All of the Included Merchant Locations are located in the Territory;
- (iv) The dollar amount of *** of the Non-Regulated Visa Debit Transactions originated at the Included Merchant Locations during the Relevant Quarter was \$***; and
- (v) The result of *** the aggregate amount of the *** volume from Non-Regulated Visa Debit Transactions generated at all of the Included Merchant Locations during the Relevant Quarter *** the total number of Non-Regulated Visa Debit Transactions generated during the Relevant Quarter at the Included Merchant Locations was *** than \$***.

Acknowledgment and Agreement

USAT acknowledges and agrees that the *** at each of the Included Merchant Locations throughout the Term, is a material inducement to Visa offering and making systematically available to USAT and USAT's Acquirer the Non-Regulated Debit Promotional IRF Rate, and that Visa may not offer and stop systematically making available the Non-Regulated Debit Promotional IRF Rate if at any time during the Term there is a*** at any of the Included Merchant Locations.

I certify that I am responsible for preparing this certification on behalf of USAT and that USAT used commercially reasonable diligence in determining the information necessary to make the assertions and certifications contained in this document in accordance with USAT's records and that to the best of my knowledge those assertions and certifications are true, accurate, and complete.

By: _____

Name: _____

Title: _____

(Must be an officer of USA Technologies, Inc.)

Date: _____

Rider 3

to

USA Technologies, Inc. Incentive Agreement

between

Visa U.S.A. Inc. and USA Technologies, Inc.

effective as of [____] (“Agreement”)

Form of

Quarterly Credit Certification

* * *

The language above in the header of this Rider 3 is only for purposes of identifying this document in the context of the Agreement.

* * *

Quarterly Credit Certification

Certification

USA Technologies, Inc. (“USAT”) confirms and certifies to Visa in respect of the three month period that started on [date] and concluded on [date] (the **“Relevant Quarter”**), all of the assertions in (i) through (v) below are true, accurate, and complete for each Included Merchant that USAT or USAT’s Acquirer passed along the benefit of the Credit Promotional IRF Rate to during the Relevant Quarter:

- (i) During the Relevant Quarter, the rate of the *** was *** the rate of the Credit Promotional IRF Rate;
- (ii) During the Relevant Quarter, all of the Included Merchant Locations accepted any and all Visa Cards;
- (iii) All of the Included Merchant Locations are located in the Territory;
- (iv) The dollar amount of *** of the Visa Credit Transactions originated at the Included Merchant Locations during the Relevant Quarter was \$***; and
- (v) The result of *** the aggregate amount of the *** volume from Visa Credit Transactions originated at all of the Included Merchant Locations during the Relevant Quarter *** the total number of Visa Credit Transactions originated during the Relevant Quarter at the Included Merchant Locations was *** than \$***.

Acknowledgment and Agreement

USAT acknowledges and agrees that *** at each of the Included Merchant Locations throughout the Term, is a material inducement to Visa offering and systematically making available to USAT and USAT's Acquirer the Credit Promotional IRF Rate, and that Visa may not offer and maintain the Credit Promotional IRF Rate if at any time during the Term there is a *** at any of the Included Merchant Locations.

I certify that I am responsible for preparing this certification on behalf of USAT and that USAT used commercially reasonable diligence in determining the information necessary to make the assertions and certifications contained in this document in accordance with USAT's records and that to the best of my knowledge those assertions and certifications are true, accurate, and complete.

By: _____

Name: _____

Title: _____

(Must be an officer of USA Technologies, Inc.)

Date: _____

Rider 4

to

USA Technologies, Inc. Incentive Agreement

between

Visa U.S.A. Inc. and USA Technologies, Inc.

effective as of [____] (“Agreement”)

Form of

Quarterly Unattended Regulated Debit Certification

* * *

The language above in the header of this Rider 4 is only for purposes of identifying this document in the context of the Agreement.

* * *

Quarterly Unattended Regulated Debit Certification

USA Technologies, Inc. (“USAT”) confirms and certifies to Visa that, in respect of the three month period that started on [date] and concluded on [date] (the **“Relevant Quarter”**), all of the assertions in (i) through (v) below are true, accurate, and complete for each Included Merchant that USAT or USAT’s Acquirer passed along the benefit of the Unattended Debit Promotional IRF Rate to during the Relevant Quarter:

- (i) During the Relevant Quarter, the rate of the *** was *** the rate of the Unattended Debit Promotional IRF Rate;
- (ii) During the Relevant Quarter, all of the Included Merchant Locations accepted any and all Visa Cards;
- (iii) All of the Included Merchant Locations are located in the Territory;
- (iv) The dollar amount of *** of the Unattended Visa Debit Transactions originated at the Included Merchant Locations during the Relevant Quarter was \$***; and
- (v) The result of *** the aggregate amount of the *** volume from Unattended Visa Debit Transactions originated at all of the Included Merchant Locations during the Relevant Quarter *** the total number of Unattended Visa Debit Transactions originated during the Relevant Quarter at the Included Merchant Locations was *** than \$***.

Acknowledgment and Agreement

USAT acknowledges and agrees that *** at each of the Included Merchant Locations, as of the Rate Effective Date and continuing throughout the Term, is a material inducement to Visa offering and making systematically available to the Acquirer the Unattended Debit Promotional IRF Rate, and that Visa may not offer and maintain the Unattended Debit Promotional IRF Rate if at any time during the Term there is an *** at any of the Included Merchant Locations.

I certify that I am responsible for preparing this certification on behalf of USAT and that USAT used commercially reasonable diligence in determining the information necessary to make the assertions and certifications contained in this document in accordance with USAT's records and that to the best of my knowledge those assertions and certifications are true, accurate, and complete.

By: _____

Name: _____

Title: _____

(Must be an officer of USA Technologies, Inc.)

Date: _____

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

I, Stephen P. Herbert, certify that:

1. I have reviewed this quarterly report on Form 10-Q of USA Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter (the issuer's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation, of internal control over financial reporting to the auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: February 17, 2015

/s/ Stephen P. Herbert

Stephen P. Herbert
Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

I, David M. DeMedio, certify that:

1. I have reviewed this quarterly report on Form 10-Q of USA Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter (the issuer's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation, of internal control over financial reporting to the auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: February 17, 2015

/s/ David M. DeMedio

David M. DeMedio
Chief Financial Officer

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the accompanying Quarterly Report of USA Technologies, Inc., (the "Company") on Form 10-Q for the period ended December 31, 2014 (the "Report"), I, Stephen P. Herbert., Chief Executive Officer of the Company, hereby certify that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 17, 2015

/s/ Stephen P. Herbert
Stephen P. Herbert
Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the accompanying Quarterly Report of USA Technologies, Inc., (the "Company") on Form 10-Q for the period ended December 31, 2014 (the "Report"), I, David M. DeMedio, Chief Financial Officer of the Company, hereby certify that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 17, 2015

/s/ David M. DeMedio

David M. DeMedio
Chief Financial Officer
