

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, 2006

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-50054

**USA Technologies, Inc.**

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of February 9, 2007, there were 9,307,924 shares of Common Stock, no par value, outstanding.

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

	December 31, 2006	June 30, 2006
<b>Assets</b>	(Unaudited)	
<b>Current assets:</b>		
Cash and cash equivalents	\$ 8,464,919	\$ 2,866,801
Accounts receivable, less allowance for uncollectible accounts of approximately \$216,000 at December 31, 2006 and \$229,000 at June 30, 2006	1,024,195	1,022,114
Finance receivables	451,734	418,184
Inventory	1,837,295	1,410,812
Prepaid expenses and other current assets	88,905	209,108
<b>Total current assets</b>	<b>11,867,048</b>	<b>5,927,019</b>
Finance receivables, less current portion	343,845	289,389
Property and equipment, net	1,182,727	1,119,304
Intangibles, net	7,740,332	8,358,632
Goodwill	7,663,208	7,663,208
Other assets	61,914	61,914
<b>Total assets</b>	<b>\$ 28,859,074</b>	<b>\$ 23,419,466</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 2,740,413	\$ 2,448,611
Accrued expenses	1,508,723	2,012,938
Current obligations under long-term debt	266,040	89,917
Convertible Senior Notes	-	851,486
<b>Total current liabilities</b>	<b>4,515,176</b>	<b>5,402,952</b>
Convertible Senior Notes, less current portion	3,961,040	6,805,403
Long-term debt, less current portion	300,650	34,047
<b>Total liabilities</b>	<b>8,776,866</b>	<b>12,242,402</b>
Commitments and contingencies (Note 6)		
<b>Shareholders' equity</b>		
Preferred Stock, no par value:		
Authorized shares- 1,800,000		
Series A Convertible Preferred- Authorized shares- 900,000 issued and outstanding shares- 520,392 as of December 31, 2006 and 521,542 as of June 30, 2006 (liquidation preference of \$13,806,338 at December 31, 2006)		
	3,686,218	3,694,360
Common Stock, no par value:		
Authorized shares- 640,000,000		
Issued and outstanding shares- 9,299,719 December 31, 2006 and 6,327,175 at June 30, 2006		
	155,095,814	138,110,126
Accumulated deficit	( 138,699,824)	(130,627,422)
<b>Total shareholders' equity</b>	<b>20,082,208</b>	<b>11,177,064</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 28,859,074</b>	<b>\$ 23,419,466</b>

See accompanying notes.

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

	Three months ended December 31,		Six months ended December 31,	
	2006	2005	2006	2005
<b>Revenues:</b>				
Equipment sales	\$ 1,654,314	\$ 1,666,675	\$ 3,325,121	\$ 2,739,045
License and transaction fees	357,408	291,078	695,498	582,594
<b>Total revenues</b>	<b>2,011,722</b>	<b>1,957,753</b>	<b>4,020,619</b>	<b>3,321,639</b>
<b>Cost of sales:</b>				
Cost of equipment	1,456,779	924,951	2,587,938	1,770,990
Cost of services	270,754	244,919	532,956	447,840
<b>Cost of sales</b>	<b>1,727,533</b>	<b>1,169,871</b>	<b>3,120,894</b>	<b>2,218,830</b>
<b>Gross profit</b>	<b>284,189</b>	<b>787,882</b>	<b>899,725</b>	<b>1,102,809</b>
<b>Operating expenses:</b>				
General and administrative	1,515,849	1,136,470	2,941,718	2,239,773
Compensation	1,943,325	1,435,568	3,864,513	2,793,364
Depreciation and amortization	429,524	421,981	856,496	831,774
<b>Total operating expenses</b>	<b>3,888,698</b>	<b>2,994,019</b>	<b>7,662,727</b>	<b>5,864,911</b>
<b>Operating loss</b>	<b>(3,604,509)</b>	<b>(2,206,137)</b>	<b>(6,763,002)</b>	<b>(4,762,102)</b>
<b>Other expense:</b>				
Interest income	26,568	16,288	59,112	36,781
<b>Interest expense:</b>				
Coupon or stated rate	(298,811)	(358,459)	(596,191)	(703,462)
Non-cash interest and amortization of debt discount	(500,336)	(315,783)	(757,321)	(632,180)
<b>Total interest expense</b>	<b>(799,147)</b>	<b>(674,242)</b>	<b>(1,353,512)</b>	<b>(1,335,642)</b>
<b>Total other expense</b>	<b>(772,579)</b>	<b>(657,954)</b>	<b>(1,294,400)</b>	<b>(1,298,861)</b>
<b>Net loss</b>	<b>(4,377,088)</b>	<b>(2,864,091)</b>	<b>(8,057,402)</b>	<b>(6,060,963)</b>
Cumulative preferred dividends	-	-	(391,157)	(392,057)
<b>Loss applicable to common shares</b>	<b>\$(4,377,088)</b>	<b>\$(2,864,091)</b>	<b>\$(8,448,559)</b>	<b>\$(6,453,020)</b>
<b>Loss per common share (basic and diluted)</b>				
	<b>\$ (0.60)</b>	<b>\$ (0.61)</b>	<b>\$ (1.23)</b>	<b>\$ (1.42)</b>
<b>Weighted average number of common shares outstanding (basic and diluted)</b>				
	<b>7,248,300</b>	<b>4,710,351</b>	<b>6,849,926</b>	<b>4,559,167</b>

See accompanying notes.

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

	Series A Convertible Preferred Stock	Common Stock	Accumulated Deficit	Total
Balance, June 30, 2006	\$ 3,694,360	\$138,110,126	\$(130,627,422)	\$11,177,064
Issuance of 1,514,332 shares of Common Stock to an accredited investor at varying prices per share, less issuance costs of \$53,226	-	8,022,168	-	8,022,168
Issuance of 1,400,000 shares of Common Stock to an accredited investor at \$6.00 per share and 700,000 warrants exercisable at \$6.40 per share, less issuance costs of \$542,801	-	7,857,199	-	7,857,199
Conversion of 1,150 shares of Preferred Stock to 11 shares of Common Stock	(8,142)	8,142	-	-
Conversion of \$15,000 of cumulative preferred dividends into 15 shares of Common Stock at \$1,000 per share	-	15,000	(15,000)	-
Issuance of 50 shares of Common Stock from the conversion of Senior Notes	-	500	-	500
Issuance of 42,536 shares of Common Stock to settle legal disputes	-	288,000	-	288,000
Issuance of 15,600 shares of Common Stock under the 2006-A Stock Compensation Plan	-	98,078	-	98,078
Charges incurred in connection with the issuance of Common Stock for employee compensation	-	507,917	-	507,917
Charges incurred in connection with stock options	-	188,684	-	188,684
Net loss	-	-	(8,057,402)	(8,057,402)
Balance, December 31, 2006	<u>\$ 3,686,218</u>	<u>\$155,095,814</u>	<u>\$(138,699,824)</u>	<u>\$20,082,208</u>

See accompanying notes.

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

	Six months ended December 31,	
	2006	2005
<b>Operating activities</b>		
Net loss	\$ (8,057,402 )	\$ (6,060,963 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Charges incurred in connection with the issuance of Common Stock for employee compensation	605,995	9,280
Charges incurred in connection with stock options	188,684	7,022
Non-cash interest and amortization of debt discount	757,321	632,180
Charges incurred in connection with the issuance of Common Stock for legal settlements	288,000	-
Gain on repayment of Senior Notes	(42,073)	-
Bad debt expense	51,322	(12,329)
Amortization	618,300	618,300
Depreciation	238,196	213,474
Changes in operating assets and liabilities:		
Accounts receivable	(53,403)	(678,087)
Finance receivables	(88,006)	41,314
Inventory	(426,483)	349,320
Prepaid expenses and other assets	120,203	112,437
Accounts payable	291,802	(498,967)
Accrued expenses	(504,215)	(38,534)
Net cash used in operating activities	(6,011,759)	(5,305,553)
<b>Investing activities</b>		
Purchase of property and equipment	(301,619)	(449,531)
Net cash used in investing activities	(301,619)	(449,531)
<b>Financing activities</b>		
Net proceeds from the issuance of Common Stock and exercise of Common Stock Warrants	15,879,367	6,420,340
Collection of subscriptions receivable	-	35,723
Proceeds from the issuance of Senior Notes	-	1,297,801
Repayment of Senior Notes	(4,410,598)	-
Net proceeds from (repayment of) long-term debt	442,727	(14,945)
Net cash provided by financing activities	11,911,496	7,738,919
Net increase in cash and cash equivalents	5,598,118	1,983,835
Cash and cash equivalents at beginning of period	2,866,801	2,097,881
Cash and cash equivalents at end of period	\$ 8,464,919	\$ 4,081,716
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 597,097	\$ 697,714
Conversion of Senior Notes to Common Stock	\$ 500	\$ 259,135
Conversion of Convertible Preferred Stock to Common Stock	\$ 8,142	\$ 7,788
Conversion of Convertible Preferred Dividends to Common Stock	\$ 15,000	\$ 17,320
Common Stock Issued to Settle Lawsuits	\$ 288,000	\$ -
Beneficial conversion feature related to Senior Notes	\$ -	\$ 46,322

See accompanying notes.

## 1. Accounting Policies

### *Interim Financial Information*

The accompanying unaudited consolidated financial statements of USA Technologies, Inc. (the "Company") have been prepared in accordance with 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 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, 2006. In the opinion of management, all adjustments considered necessary, consisting of normal recurring adjustments, have been included. Operating results for the six-month period ended December 31, 2006 are not necessarily indicative of the results that may be expected for the year ending June 30, 2007. The balance sheet at June 30, 2006 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2006.

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

### *Reclassification*

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

## 1. Accounting Policies (continued)

### *Inventory*

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

### *Income Taxes*

No provision for income taxes has been made in the six months ended December 31, 2006 and 2005 given the Company's losses in 2006 and 2005 and available net operating loss carryforwards. A benefit has not been recorded as the realization of the net operating losses is not assured and the timing in which the Company can utilize its net operating loss carryforwards in any year or in total may be limited by provisions of the Internal Revenue Code regarding changes in ownership of corporations.

### *Loss Per Common Share*

Basic earnings 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 period plus the dilutive effect (unless such effect is anti-dilutive) of potential common shares. No exercise of stock options, purchase rights, stock purchase warrants, or the conversion of senior notes, debentures, preferred stock, or cumulative preferred dividends was assumed during the periods presented because the assumed exercise of these securities would be anti-dilutive.

### *Shared-Based Payment*

On July 1, 2005, the Company adopted FAS123(R) "Share-Based Payment" which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. There were no common stock options granted during the quarter ended December 31, 2006. The Company recorded stock compensation expense of \$605,995 related to Common Stock grants and vesting of shares previously granted to employees and \$188,684 related to the vesting of Common Stock options during the quarter ended December 31, 2006.



## 1. Accounting Policies (continued)

### *Recent Pronouncements*

On December 21, 2006, the Financial Accounting Standards Board (the "FASB") issued FASB Staff Position EITF 00-19-2 ("FSP EITF 00-19-2"). This FSP addresses an issuer's accounting for registration payment arrangements and specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement should be separately recognized and measured in accordance with FASB Statement No. 5, Accounting for Contingencies. This FSP was effective on December 21, 2006 for new arrangements. For registration payment arrangements entered into prior to the issuance of this FSP, this guidance is effective for financial statements issued for fiscal years beginning after December 15, 2006. The Company elected to adopt FSP EITF 00-19-2 early, on December 21, 2006. See Note 4.

## 2. Accrued Expenses

Accrued expenses consist of the following:

	December 31 2006 (unaudited)	June 30 2006
Accrued compensation and related sales commissions	\$ 236,005	\$ 384,256
Accrued interest	391,691	381,240
Accrued professional fees	90,466	162,051
Accrued taxes and filing fees	104,818	100,573
Advanced customer billings	97,250	109,007
Accrued legal fees	33,094	270,000
Accrued other	555,399	605,811
	<u>\$ 1,508,723</u>	<u>\$ 2,012,938</u>

## 3. Senior Notes and Long-term Debt

As of December 31, 2006, the outstanding balance of Senior Notes was \$3,961,040. This is comprised of notes with a face amount of \$5,442,091 less unamortized debt discount of \$1,481,051.

Debt discount and other issuance costs associated with the Senior Notes are amortized to interest expense over the remaining life of the Senior Notes. Upon conversion of Senior Notes into Common Stock, unamortized costs relating to the notes converted are charged to interest expense. Total charges to interest for amortization of debt discount and other issuance costs were \$500,336 and \$757,321 for the three and six months ended December 31, 2006, respectively, and \$315,783 and \$632,180 for the three and six months ended December 31, 2005, respectively.

During the six months ended December 31, 2006 and 2005, Senior Notes totaling \$500 and \$259,135, respectively, were converted into 50 and 1,841,354 shares, respectively, of the Company's Common Stock.

### 3. Senior Notes and Long-term Debt (continued)

In December 2006, and as permitted under the terms thereof, the Company prepaid a total of \$4,341,121 of Convertible Senior Notes. These Convertible Senior Notes consisted of all the \$983,327 principal amount of outstanding 10% Convertible Senior Notes due June 30, 2007, all the \$2,962,516 principal amount of outstanding 12% Convertible Senior Notes due December 31, 2007, and \$395,278 principal amount of 10% Convertible Senior Notes due December 31, 2008. During the six months ended December 31, 2006, the Company also repaid \$11,550 and \$100,000 principal amount of 10% Convertible Senior Notes due December 31, 2008 and 2010, respectively. The Company recognized a gain on the early repayment of the December 31, 2008 and 2010 Senior Notes totaling \$42,073.

During October 2006, the Company entered into a loan agreement with a financial institution bearing interest at 18% and collateralized by \$470,000 of the Finance Receivables. The Company received \$470,000 in proceeds and agreed to make 12 monthly payments of \$25,000 followed by 18 monthly payments of \$15,000, which include interest and principal, from the proceeds received from the Finance Receivables. As of December 31, 2006, \$239,291 and \$199,975 of the current and long-term Finance Receivables, respectively, are collateral for the outstanding balance of the loan, of which \$221,549 and \$212,172 is current and long-term debt, respectively.

### 4. Common Stock

During the six months ended December 31, 2006, the Company issued 715,571 shares of Common Stock under the 2006 Common Stock Agreement between Mr. Illes and the Company dated February 17, 2006 (the "2006 Common Stock Agreement") for total gross proceeds of \$3,794,651.

On September 25, 2006, the Company entered into a new Common Stock Purchase Agreement (the "2006-B Common Stock Agreement") with Steve Illes. Mr. Illes agreed to purchase shares of the Company's Common Stock with an aggregate purchase price not to exceed \$15,000,000. Under the 2006-B Common Stock Agreement, the Company has the right at any time to require Mr. Illes to purchase Common Stock from the Company at the lower of: (i) \$30.00 per share; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by the Company to Mr. Illes of notice of his obligation to purchase. The Company can require Mr. Illes to purchase shares only if the shares have been registered by the Company for resale by Mr. Illes under the Securities Act of 1933, as amended. The agreement also states that no additional shares shall be registered under the existing 2006 Common Stock Agreement. During any calendar month, Mr. Illes cannot be required by the Company to purchase Common Stock for an aggregate purchase price in excess of \$800,000. The 2006-B Common Stock Agreement terminates August 30, 2009. The initial number of shares of Common Stock subject to this agreement is 1,500,000. The Company registered 1,500,000 shares effective December 21, 2006. The Company has the right in the future, if necessary, to register additional shares for resale by Mr. Illes in order to ensure that a sufficient number of shares are available for purchase by Mr. Illes under the 2006-B Common Stock Agreement. The Company agreed to issue to Mr. Illes

#### 4. Common Stock (continued)

20,000 shares of Common Stock as a due diligence fee in connection with this transaction, and to register these shares for resale by Mr. Illes under the 1933 Act. During the six months ended December 31, 2006, the Company issued 798,761 shares of Common Stock, including the 20,000 shares as a due diligence fee, under the 2006-B Common Stock Agreement for total gross proceeds of \$4,280,743. The Company incurred issuance costs of \$53,226 during the six months ended December 31, 2006 in connection with this agreement.

On December 15, 2006, the Company entered into stock purchase agreements (the "Agreements") with certain investors ("Buyers"). Pursuant to the Agreements, the Company agreed to sell to the Buyers 1,400,000 shares of the Company's Common Stock (the "Shares") at a price of \$6.00 per share, for gross proceeds of \$8,400,000. The Company also agreed to issue to the Buyers warrants to purchase up to 700,000 common shares at an exercise price of \$6.40 per share exercisable at any time through December 31, 2011 (the "Warrants"). The fair value of these warrants was estimated to be \$2,778,300 using the Black-Scholes model with the following assumptions: dividend yield of 0%, expected stock price volatility of 0.695, risk free interest rate of 4.76%, and an expected life of five years. The closing under the Agreements occurred on December 20, 2006. William Blair & Co., LLC ("Blair") acted as the exclusive placement agent for the private placement. As compensation for its services, the Company paid Blair cash compensation of \$542,801 and issued warrants to purchase up to 11,454 Common Shares at \$6.60 per share at any time through December 31, 2011. Pursuant to the Agreements, the Company agreed to file a registration statement with the Securities and Exchange Commission ("SEC") covering the resale of the Shares and of the Shares underlying the Warrants within thirty days from the date of the Agreements. The Company registered the 1,400,000 shares and 711,454 warrants effective February 13, 2007. In the event that the registration statement was not declared effective by the SEC within ninety (90) days from the date of the Agreements, the Company would have been required to pay to the Buyers a cash payment equal to one percent (1%) of the aggregate subscription price paid by the Buyers for each month beyond such ninety (90) day period that the registration statement was not effective. The maximum aggregate penalty payable to the Buyers was twelve percent (12%) of the aggregate subscription price paid by the Buyers, or \$1,008,000. In accordance with FSP EITF 00-19-2, the Company determined that the likelihood of being required to remit any payments was not probable and thus did not record a liability related to this contingent payment arrangement.

## 5. Common Stock Warrants

As of December 31, 2006, there were 913,923 Common Stock warrants outstanding, all of which were exercisable at exercise prices ranging from \$6.40 to \$125 per share.

## 6. Commitments and Contingencies

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

As previously disclosed, on September 20, 2006, the Company and Swartz Private Equity, LLC, agreed to fully settle the litigation between them by the issuance by the Company to Swartz of 40,000 shares of our Common Stock. The settlement agreement and release implementing the settlement was signed by the parties on October 12, 2006. The Company had recorded a liability of \$270,000 as of June 30, 2006 to accrue for the value of the 40,000 shares of Common Stock that were issued in October under the settlement agreement.

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

## 7. Subsequent Events

From January 1, 2007 through January 26, 2007, the Company issued an additional 8,205 shares of Common Stock under the 2006-B Common Stock Agreement for total gross proceeds of \$48,000.

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

### Results of Operations

*Three months ended December 31, 2006*

Revenues for the three months ended December 31, 2006 were \$2,011,722 compared to \$1,957,753 for the corresponding three-month period in the previous fiscal year. This \$53,969 or 3% increase was due to an increase in license and transaction fees of \$66,330, which was offset by a decrease in equipment sales of \$12,361. The decrease in equipment sales was due to a decrease in sales of approximately \$522,000 of energy conservation equipment, approximately \$17,000 in sales of business centers, and approximately \$16,000 in laundry equipment, offset by an increase of approximately \$558,000 in e-Port vending equipment sales, primarily to Mastercard International.

Cost of sales for the period consisted of equipment costs of \$1,456,779 and network and transaction related costs of \$270,754. The increase in total cost of sales of \$557,662 or 48% over the prior year period was due to an increase in equipment costs of approximately \$532,000 and network and transaction related costs of approximately \$26,000. The increase in equipment costs was due to the change in sales mixture that consisted of an increase in higher cost e-Port equipment, as compared to the cost of our energy conservation equipment.

Gross profit for the three months ended December 31, 2006 was \$284,189, compared to a gross profit of \$787,882 for the corresponding three-month period in the previous fiscal year. This 64% decrease is primarily due to the change in equipment sales mixture that consisted of an increase in sales of e-Ports at or near cost along with a decrease in our higher margin energy conservation equipment sales.

General and administrative expense of \$1,515,849 increased by \$379,379 or 33% primarily due to an increase in legal fees of approximately \$32,000, an increase in outside service expenses of approximately \$150,000, an increase in product development costs of approximately \$79,000 and an increase in consultant costs of approximately \$212,000, offset by a decrease in public relations expense of approximately \$48,000 and a decrease in royalty expense of approximately \$59,000.

Compensation expense of \$1,943,325 increased by \$507,757 or 35% primarily due to an increase in salaries expense of approximately \$271,000 due to an increase in the number of employees, an increase in bonus expense of approximately \$299,000 due to non-cash charges from common stock and common stock option grants to our executive officers, offset by a decrease in sales commissions of approximately \$35,000 due to a decrease in energy equipment sales and a new commission plan.

Interest expense of \$799,147 increased by \$124,905 or 19% primarily due to the recognition of the remaining unamortized debt discount on the \$4,341,121 of convertible Senior Notes that were repaid early in December 2006.

The quarter ended December 31, 2006 resulted in a net loss of \$4,377,088 (approximately \$1.7 million of non-cash charges) compared to a net loss of \$2,864,091 (approximately \$0.7 million of non-cash charges) for the quarter ended December 31, 2005.

#### *Six months ended December 31, 2006*

Revenues for the six months ended December 31, 2006 were \$4,020,619 compared to \$3,321,639 for the corresponding six-month period in the previous fiscal year. This \$698,980 or 21% increase was primarily due to an increase in equipment sales of \$586,076 and license and transaction fees of \$112,904. The increase in equipment sales was due to an increase in sales of approximately \$1,040,000 of e-Port vending equipment sales and approximately \$39,000 in business center sales, offset by decreases of approximately \$372,000 in energy conservation equipment, approximately \$106,000 in laundry equipment sales and approximately \$15,000 in other equipment sales.

Cost of sales for the period consisted of equipment costs of \$2,587,938 and network and transaction related costs of \$532,956. The increase in cost of sales of \$902,064 or 41% over the prior year period was due to an increase in equipment costs of approximately \$817,000 and an increase of approximately \$85,000 of network and transaction related costs. The increase in equipment costs is due to the increase in equipment sales, specifically, the increase in equipment costs was due to the change in sales mixture that consisted of an increase in our higher cost e-Port equipment, as compared to the cost of our energy conservation equipment.

Gross profit for the six months ended December 31, 2006 was \$899,725 compared to gross profit of \$1,102,809 for the corresponding six-month period in the previous fiscal year. This 18% decrease is primarily due to the change in equipment sales mixture that consisted of an increase in sales of e-Ports at or near cost along with a decrease in our higher margin energy Miser sales. General and administrative expense of \$2,941,718, increased by \$701,945 or 31% primarily due to an increase in legal fees of approximately \$166,000, an increase in consulting fees of approximately \$380,000, and an increase of approximately \$135,000 in product development costs.

Compensation expense of \$3,864,513 increased by \$1,071,149 or 38%, primarily due to an increase in salaries and benefits expense of approximately \$430,000 related to the increase in the number of employees and an increase in bonus expense of approximately \$600,000 due to non-cash charges from common stock and common stock option grants to our executive officers.

The six-month period ended December 31, 2006 resulted in a net loss of \$8,057,402 (approximately \$2.7 million of non-cash charges) compared to a net loss of \$6,060,963 (approximately \$1.5 million of non-cash charges) for the six-month period ended December 31, 2005.

### **Liquidity and Capital Resources**

For the six months ended December 31, 2006, net cash of \$6,011,759 was used by operating activities, primarily due to the net loss of \$8,057,402 offset by non-cash charges totaling \$2,705,745 for transactions involving the issuance of Common Stock and Common Stock Options for compensation, the issuance of Common Stock for legal settlements, the gain on repayment of Senior Notes, bad debt expense, depreciation and amortization of assets, and amortization of debt discount. In addition to these non-cash charges, the Company's net operating assets increased by \$660,102 primarily due the increases in finance receivables and inventory, along with a decrease in accrued expenses, offset by a decrease in prepaid expenses and an increase in accounts payable.

Proceeds from financing activities for the six months ended December 31, 2006 provided \$11,911,496 of funds, which were necessary to support cash used in operating and investing activities. Net proceeds of \$15,879,367 were realized from the issuance of Common Stock and \$470,000 of proceeds from a loan agreement, offset by cash used to repay long-term debt (\$27,273) and Senior Notes less discount (\$4,410,598).

The Company has incurred losses since inception. Cumulative losses through December 31, 2006 amounted to approximately \$136,000,000. The Company has continued to raise capital through equity and debt offerings to fund operations.

During the year ended June 30, 2006, cash used in operating activities was approximately \$925,000 per month. Using the prior fiscal year as a basis for estimating cash requirements for the year ending June 30, 2007 (which assumes a static level of revenues), cash requirements for the fiscal year 2007, including requirements for capital expenditures and repayments of long term debt, would be approximately \$11,600,000.

As of December 31, 2006 the Company had approximately \$8,465,000 of cash and cash equivalents on hand.

On September 25, 2006, the Company entered into the 2006-B Common Stock Agreement with Mr. Illes, as more fully disclosed in the Condensed Consolidated Financial Statements, pursuant to which he agreed to purchase shares with an aggregate purchase price not to exceed \$15,000,000. Of the \$15,000,000, \$4,328,743 in gross proceeds have been received through January 26, 2007 (\$4,280,743 of which was sold on or before December 31, 2006), leaving \$10,671,257 of available funds through the expiration date of the agreement on August 30, 2009

Funding sources in place to meet the Company's cash requirements for the year ending June 30, 2007 are primarily comprised of approximately \$8,465,000 in cash and cash equivalents on hand as of December 31, 2006 and the proceeds that are available from Mr. Illes under the 2006-B Common Stock Agreement referred to above. The Company believes these existing sources will provide sufficient funds to meet its cash requirements through at least June 30, 2007.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

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

### **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, 2006. Based on this evaluation, they conclude that the disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.



(b) Changes in internal controls.

There have been no changes during the quarter ended December 31, 2006 in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II - Other Information**

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

During the quarter ended December 31, 2006, the Company issued to Steve Illes 429,753 shares of Common Stock under the 2006 Common Stock Purchase Agreement and 798,761 shares of Common Stock under the 2006-B Common Stock Purchase Agreement for an aggregate purchase price of \$6,271,894. The offer and sale of the shares were exempt from registration under Rule 506 promulgated under Section 4(2) of the Securities Act of 1933, as amended. Mr. Illes is an accredited investor, made appropriate investment representations, was afforded access to all public filings and all other information that the Company could reasonably obtain. As agreed between Mr. Illes and the Company, the shares issued to Mr. Illes were registered for resale by Mr. Illes under the 1933 Act.

During September 2006, the Company agreed to settle a legal action brought against the Company by a former employee. As part of the settlement, during October 2006, the Company issued to the former employee 2,536 shares valued at \$7.10 per share. The Company agreed to register these shares for resale through October 12, 2007. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act.

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

**Item 5. Other Information**

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

Pursuant to the Program, each executive would be awarded shares of the Company's Common Stock if the Company achieves certain target goals relating to revenues, gross profit, and EBITDA (earnings before interest, taxes, depreciation, and amortization) of the Company during each of the fiscal years ending June 30, 2007, June 30, 2008 and June 30, 2009.

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

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

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

The target goals for each fiscal year are referred to in the minutes of the Compensation Committee.

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

The Board also set the date for the Company's 2007 Annual Meeting of Shareholders at 10:00 a.m., on Friday, May 11, 2007, at the Chester Valley Golf Club, 430 Swedesford Road, Malvern, Pennsylvania.

**Item 6. Exhibits**

- 10.1 Amendment to Agreement of Lease between BMR-Spring Mill Drive, L.P., as landlord, and the Company, as tenant, dated January 15, 2007.
- 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 Certifications by the Chief Executive Officer and Chief Financial Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.

Signatures

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.

USA TECHNOLOGIES, INC.

Date: February 13, 2007 /s/ George R. Jensen, Jr.  
George R. Jensen, Jr., Chairman and  
Chief Executive Officer

Date: February 13, 2007 /s/ David M. DeMedio  
David M. DeMedio,  
Chief Financial Officer

## FIRST AMENDMENT TO AGREEMENT OF LEASE

THIS FIRST AMENDMENT TO AGREEMENT OF LEASE (this "Amendment") is entered into as of this 15<sup>th</sup> day of January, 2007 (the "Execution Date"), by and between BMR-SPRING MILL DRIVE, L.P., a Delaware limited partnership ("Landlord"), as successor-in-interest to Pennswood Spring Mill Associates ("Original Landlord"), and USA TECHNOLOGIES, INC., a Pennsylvania corporation ("Tenant").

### RECITALS

A. WHEREAS, Original Landlord and Tenant entered into that certain Agreement of Lease dated as of February 2, 2004, (the "Lease"), whereby Tenant leases certain premises (the "Premises") from Landlord at 20 Spring Mill Drive in Malvern, Pennsylvania (the "Building");

B. WHEREAS, Tenant desires to lease from Landlord additional premises, commonly known as Suite 26; and

C. WHEREAS, Landlord and Tenant desire to modify and amend the Lease only in the respects and on the conditions hereinafter stated.

### AGREEMENT

NOW, THEREFORE, Landlord and Tenant, in consideration of the mutual promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, agree as follows:

1. Definitions. For purposes of this Amendment, capitalized terms shall have the meanings ascribed to them in the Lease unless otherwise defined herein.

2. Additional Premises. Commencing upon the Execution Date, Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, approximately four thousand two hundred ninety-three (4,293) rentable square feet of space commonly known as Suite 26 (the "Additional Premises"). The Additional Premises are depicted on Exhibit A attached hereto. From and after the commencement date with respect to the Additional Premises (as detailed below), the term "Premises," as used in the Lease, shall include the Additional Premises.

3. Extension Term. The "Lease Termination Date" is hereby amended to mean December 31, 2010. The period from April 1, 2007, through the Lease Termination Date is referred to herein as the "Extension Term."

4. Costs Component of Base Rent. At the commencement of the Extension Term, the term "Costs Component of Base Rent" shall mean Sixty-Five Thousand Two Hundred Seventy-Nine and 76/100 Dollars (\$65,279.76) per annum.

5. Net Component of Base Rent, Section A(8) of the Lease is hereby supplemented with the following. In the event of any conflict between this Section and the original Section A(8) of the Lease, this Section shall control.

<u>Months of Extension Term</u>	<u>Per SF Annually</u>	<u>Monthly</u>	<u>Annually</u>
1-12	\$ 12.00	\$ 13,377.00	\$ 160,524.00
13-24	\$ 12.36	\$ 13,778.31	\$ 165,339.72
25-36	\$ 12.73	\$ 14,191.66	\$ 170,299.12
37-45	\$ 13.11	\$ 14,617.34	\$ 175,408.09

6. Additional Rent Factor. The term "Original Additional Rent Factor" is hereby amended to mean Four and 88/100 Dollars (\$4.88) .

7. Tenant Improvements.

a. Tenant shall cause to be constructed the tenant improvements in the Premises and Additional Premises (the "Tenant Improvements") pursuant to the Work Letter at a cost to Landlord (the "TI Allowance") not to exceed Sixty-Six Thousand Eight Hundred Eighty-Five Dollars (\$66,885) (based upon Five Dollars (\$5) per rentable square foot of the Premises and Additional Premises), which amount shall include the costs of (a) construction, (b) project review by Landlord (which fee shall equal two percent (2%) of the TI Allowance), (c) space planning, architect, engineering and other related services and (d) building permits and other taxes, fees, charges and levies by Governmental Authorities for permits or for inspections of the Tenant Improvements. In no event shall the TI Allowance be used for (w) the purchase of any furniture, personal property or other non-building system equipment, (x) the cost of work that is not authorized by the approved plans or otherwise approved in writing by Landlord, (y) costs resulting from any default by Tenant of its obligations under the Lease or (z) costs that are recoverable or reasonably recoverable by Tenant from a third party (e.g., insurers, warrantors, or tortfeasors). If the total cost of the Tenant Improvements exceeds the TI Allowance, then the overage shall be paid by Tenant to Landlord prior to the Term Commencement Date. Tenant shall have until eight (8) months after the Execution Date to expend the unused portion of the TI Allowance, after which date Landlord's obligation to fund such costs shall expire. To the extent that the total projected cost of the Tenant Improvements (as projected by Landlord) exceeds the TI Allowance (such excess, the "Excess TI Costs"), Tenant shall pay for Tenant Improvements to the extent of such Excess TI Costs before Landlord shall have any obligation to advance any sums on account of the TI Allowance. Tenant shall deliver to Landlord (i) a certificate of occupancy for the Additional Premises suitable for the Permitted Uses and (ii) a Certificate of Substantial Completion in the form of the American Institute of Architects document G704, executed by the project architect and the general contractor. Possession of areas of the Premises necessary for utilities, services, safety and operation of the Building is reserved to Landlord.

8. Parking. Tenant shall be entitled to its pro rata share of parking at the Building

9. Condition of Premises. Tenant acknowledges that (a) it is in possession of and is fully familiar with the condition of the Premises and, notwithstanding anything contained in the Lease to the contrary, agrees to take the same in its condition “as is” as of the first day of the Extension Term, and (b) Landlord shall have no obligation to alter, repair or otherwise prepare the Premises or Additional Premises for Tenant’s occupancy for the Extension Term or to pay for any improvements to the Premises or Additional Premises, except for Landlord’s payment of the TI Allowance.

10. Broker. Tenant represents and warrants that it has not dealt with any broker or agent in the negotiation for or the obtaining of this Amendment, other than Beacon Commercial Real Estate (“Broker”), and agrees to indemnify, defend and hold Landlord harmless from any and all cost or liability for compensation claimed by any such broker or agent, other than Broker, employed or engaged by it or claiming to have been employed or engaged by it. Broker is entitled to a leasing commission in connection with the making of this Amendment, and Landlord shall pay such commission to Broker pursuant to a separate agreement between Landlord and Broker.

11. No Default. Tenant represents, warrants and covenants that, to the best of Tenant’s knowledge, Landlord and Tenant are not in default of any of their respective obligations under the Lease and no event has occurred that, with the passage of time or the giving of notice (or both) would constitute a default by either Landlord or Tenant thereunder.

12. Effect of Amendment. Except as modified by this Amendment, the Lease and all the covenants, agreements, terms, provisions and conditions thereof shall remain in full force and effect and are hereby ratified and affirmed. The covenants, agreements, terms, provisions and conditions contained in this Amendment shall bind and inure to the benefit of the parties hereto and their respective successors and, except as otherwise provided in the Lease, their respective assigns. In the event of any conflict between the terms contained in this Amendment and the Lease, the terms herein contained shall supersede and control the obligations and liabilities of the parties. From and after the date hereof, the term “Lease” as used in the Lease shall mean the Lease, as modified by this Amendment.

13. Miscellaneous. This Amendment becomes effective only upon execution and delivery hereof by Landlord and Tenant. The captions of the paragraphs and subparagraphs in this Amendment are inserted and included solely for convenience and shall not be considered or given any effect in construing the provisions hereof. All exhibits hereto are incorporated herein by reference.

14. Counterparts. This Amendment may be executed in one or more counterparts that, when taken together, shall constitute one original.

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IN WITNESS WHEREOF, Landlord and Tenant have hereunto set their hands as of the date and year first above written, and acknowledge that they possess the requisite authority to enter into this transaction and to execute this Amendment.

**LANDLORD:**

BMR-SPRING MILL DRIVE, L.P.,  
a Delaware limited partnership

By: BMR-Spring Mill Drive GP LLC,  
a Delaware limited liability company

By: /s/ Gary A. Kreitzer  
Name: Gary A. Kreitzer  
Title: Executive VP

**TENANT:**

USA TECHNOLOGIES, INC.,  
a Pennsylvania corporation

By: /s/ Stephen P. Herbert  
Name: Stephen P. Herbert  
Title: President & COO



**EXHIBIT A**

ADDITIONAL PREMISES

[Floor Plan Graphic]

## EXHIBIT B

### WORK LETTER

This Work Letter (the "Work Letter") is made and entered into as of the 22<sup>nd</sup> day of December, 2006, by and between BMR-SPRING MILL DRIVE, L.P., a Delaware limited partnership ("Landlord"), and USA TECHNOLOGIES, INC., a Pennsylvania corporation ("Tenant"), and is attached to and made a part of that certain Amendment to Agreement of Lease dated as of December 22, 2006 (the "Amendment"), by and between Landlord and Tenant for the Premises located at 26 Spring Mill Drive in Malvern, Pennsylvania. All capitalized terms used but not otherwise defined herein shall have the meanings given them in the Amendment. The term "Premises," as used herein, shall mean the Premises plus the Additional Premises. The term "Lease," as used herein, shall mean the Lease, as amended by the Amendment.

#### 1. General Requirements.

1.1. Tenant's Authorized Representative. Tenant designates George Harrum ("Tenant's Authorized Representative") as the person authorized to initial all plans, drawings, changes orders and approvals pursuant to this Work Letter. Landlord shall not be obligated to respond to or act upon any such item until such item has been initialed by Tenant's Authorized Representative.

1.2. Schedule. The schedule for design and development of Tenant's Work (as hereinafter defined), including, without limitation, the time periods for preparation and review of construction documents, approvals and performance, shall be in accordance with that certain schedule to be prepared by Landlord and Tenant and attached as Exhibit A to this Work Letter (the "Schedule") after the date hereof. The Schedule shall be subject to further adjustment as mutually agreed upon in writing by the parties, or as provided in this Work Letter.

1.3. Architects and Consultants. The architect, engineering consultants, design team, general contractor and subcontractors responsible for the construction of Tenant's Work shall be selected by Tenant and approved by Landlord. Landlord's approval of the same shall not be unreasonably withheld. Landlord hereby approves of RHJ Associates, P.C., as Tenant's architect.

#### 2. Tenant's Work.

2.1. Tenant Work Plans. All work to be performed on the Premises shall be performed by Tenant ("Tenant's Work") at Tenant's sole cost and expense and without cost to Landlord (except for the TI Allowance) and in accordance with the Approved Plans (as defined below). The quality of Tenant's Work shall be of a nature and character not less than (a) the quality of the tenant improvements in place at the Building as of the date of the Lease and (b) Landlord's building standard. The design drawings, plans and specifications listed on Schedule 2.1 to this Work Letter (the "Tenant Work Plans") are the initial list of plans that Tenant shall develop and submit to Landlord for approval. Tenant shall prepare and submit to Landlord for approval schematics covering Tenant's Work prepared in conformity with the applicable provisions of this Work Letter (the "Draft Plans"). The Draft Plans shall contain sufficient information and detail to accurately describe Tenant's proposed design to Landlord and such other information as Landlord may reasonably request. Tenant shall be solely responsible for ensuring that the Tenant Work Plans and the Draft Plans satisfy Tenant's obligations for Tenant's Work.

2.2. Landlord Approval of Plans. Landlord shall notify Tenant in writing within ten (10) business days after receipt of the Draft Plans whether Landlord approves or objects to the Draft Plans and of the manner, if any, in which the Draft Plans are unacceptable. Landlord shall not object to any Draft Plans that satisfy the requirements set forth in Section 2.1. If Landlord objects to the Draft Plans, then Tenant shall revise the Draft Plans and cause Landlord's objections to be remedied in the revised Draft Plans. Tenant shall then resubmit the revised Draft Plans to Landlord for approval. Landlord's approval of or objection to revised Draft Plans and Tenant's correction of the same shall be in accordance with this Section 2.2, until Landlord has approved the Draft Plans in writing. The iteration of the Draft Plans that is approved by Landlord without objection shall be referred to herein as the "Approved Plans."

2.3. Completion of Tenant's Work. Tenant shall perform and complete Tenant's Work (a) in strict conformance with the Approved Plans, (b) otherwise in compliance with the Lease and (c) in

accordance with applicable laws, Landlord's insurance carriers and the board of fire underwriters having jurisdiction over the Building and the Premises. Completion of Tenant's Work shall be subject to Landlord's approval.

2.4. Conditions to Performance of Tenant's Work. Prior to the commencement of Tenant's Work, Tenant shall submit to Landlord for Landlord's approval (which approval Landlord shall not unreasonably withhold) a list (the "Contractor List") of project managers, contractors and subcontractors that will perform Tenant's Work. Landlord shall give Tenant notice in writing of its approval or disapproval of the Contractor List with ten (10) business days after Landlord's receipt of the same. If Landlord disapproves of one or more parties on the Contractor List, Tenant shall revise the Contractor List and resubmit the same to Landlord for Landlord's approval in accordance with the preceding two sentences.

2.5. Requests for Consent. Landlord shall respond to all requests for consents, approvals or directions made by Tenant pursuant to this Work Letter within (10) business days following Landlord's receipt of such request. Landlord's failure to respond within such ten (10) business day period shall be deemed approval by Landlord.

3. Tenant's Construction Obligations Shall Not Delay Commencement of the Term. Tenant is currently in possession of the Premises. Notwithstanding any Tenant Work to be performed by Tenant, the commencement of the Term and Tenant's obligation to pay rent shall not, under any circumstance, be extended or delayed. Tenant shall perform promptly such of its obligations contained in this Work Letter as are to be performed by it. Tenant shall also observe and perform all of its obligations under this Lease from the Execution Date.

4. Completion of Tenant's Construction Obligations. Tenant, at its sole cost and expense (except for the TI Allowance), shall complete Tenant's Work described in this Work Letter in all respects in accordance with the provisions of the Lease and this Work Letter. Tenant's Work shall be deemed completed at such time as Tenant, at its sole cost and expense (except for the TI Allowance) shall furnish to Landlord (a) evidence satisfactory to Landlord that (i) all Tenant's Work has been completed and paid for in full (which shall be evidenced by the architect's certificate of completion and the general contractor's and each subcontractor's and material supplier's final waivers and releases of liens), (ii) all Tenant's Work has been accepted by Landlord, (iii) any and all liens related to Tenant's Work have either been discharged of record (by payment, bond, order of a court of competent jurisdiction or otherwise) or waived by the party filing such lien and (iv) no security interests relating to Tenant's Work are outstanding, (b) all certifications and approvals with respect to Tenant's Work that may be required from any governmental authority and any board of fire underwriters or similar body for the use and occupancy of the Premises, (c) certificates of insurance required by the Lease to be purchased and maintained by Tenant, (d) an affidavit from Tenant's architect certifying that all work performed in, on or about the Premises is in accordance with the Approved Plans and (e) complete drawing print sets and electronic CADD files on disc of all contract documents for work performed by their architect and engineers in relation to Tenant's Work.

5. Insurance. Prior to commencing Tenant's Work, Tenant shall provide, or shall cause Tenant's contractors and subcontractors to provide, to Landlord, in addition to the insurance required of Tenant pursuant to the Lease, the following types of insurance in the following amounts, upon the following terms and conditions:

5.1. [Intentionally omitted]

5.2. Workers' Compensation. At all times during the period of construction of Tenant's

Work, Tenant shall, or shall cause its contractors or subcontractors to, maintain statutory workers' compensation insurance as required by applicable laws.

6. Liability. Tenant assumes sole responsibility and liability for any and all injuries or the death of any persons, including Tenant's contractors and subcontractors and their respective employees, and for any and all damages to property caused by, resulting from or arising out of any act or omission on the part of Tenant, Tenant's contractors or subcontractors, or their respective employees in the prosecution of Tenant's Work. Tenant agrees to indemnify, defend, protect and save free and harmless Landlord and Landlord's affiliates, agents and employees from and against all losses and expenses, including reasonable attorneys' fees and expenses, that Landlord may incur as the result of

claims or lawsuits due to, because of, or arising out of any and all such injuries, death or damage, whether real or alleged, and Tenant and Tenant's contractors and subcontractors shall assume and defend at their sole cost and expense all such claims or lawsuits; provided, however, that nothing contained in this Work Letter shall be deemed to indemnify or otherwise hold Landlord harmless from or against liability caused by Landlord's gross negligence or willful misconduct. Any deficiency in design or construction of Tenant's Work shall be solely the responsibility of Tenant, notwithstanding the fact that Landlord may have approved of the same in writing. All material and equipment furnished by Tenant as Tenant's Work shall be new or "like new" and Tenant's Work shall be performed in a first-class, workmanlike manner.

## 7. TI Allowance.

7.1. Contribution of TI Allowance. Landlord shall contribute the TI Allowance toward the costs and expenses incurred in connection with the performance of Tenant's Work, in accordance with the terms and provisions of the Amendment. If the entire TI Allowance is not applied toward or reserved for the costs of Tenant's Work, Tenant shall not be entitled to a credit of such unused portion of the TI Allowance.

7.2. Approval of Budget for Tenant's Work. Notwithstanding anything to the contrary set forth elsewhere in this Work Letter or the Amendment Landlord shall not have any obligation to advance to Tenant any portion of the TI Allowance until Landlord shall have approved in writing the budget for the Tenant's Work (the "Approved Budget"). Prior to Landlord's approval of the Approved Budget, Tenant shall pay all of the costs and expenses incurred in connection with Tenant's Work as they become due. Landlord shall not be obligated to reimburse Tenant for costs or expenses relating to Tenant's Work that exceed either (a) the amount of the TI Allowance (other than pursuant to Section 8.2) or (b) the Approved Budget, either on a line item or overall basis.

7.3. Advance Requests. Upon submission by Tenant to Landlord of (a) a statement (an "Advance Request") setting forth the total amount requested, (b) a detailed summary of the Tenant's Work performed using AIA standard form Application for Payment (G 702) executed by the general contractor and by the architect, (c) lien releases from the general contractor and each subcontractor and material supplier with respect to the portion of Tenant's Work corresponding to the Advance Request, then Landlord shall, within thirty (30) days following receipt by Landlord of an Advance Request and the accompanying materials required by this Section 7.3, pay to the applicable contractors, subcontractors and material suppliers the amount set forth in such Advance Request; provided, however, that, with respect to any Advance Requests subject to the limits set forth in Section 7.2, Landlord shall advance to Tenant the requested amount as limited by Section 7.2.

7.4. Application of TI Allowance. Tenant may apply the TI Allowance for the payment of construction and other costs (including, without limitation, standard laboratory improvements; finishes; building fixtures; building permits; and architectural, engineering, design and consulting fees), in each case as reflected in the Approved Budget and the Approved Plans. In no event shall the TI Allowance be applied to: (a) the purchase of any furniture, personal property or other non-building system equipment; (b) the cost of work that is not authorized by the Approved Plans or approved in writing by Landlord, (c) costs resulting from any default by Tenant of its obligations under this Amendment or (d) costs that are recoverable or reasonably recoverable by Tenant from a third party (e.g., insurers, warrantors, or tortfeasors).

8. Changes. Any changes to Tenant's Work (each, a "Change") requested by Landlord or Tenant after Landlord approves the Approved Plans in writing shall be requested and instituted in accordance with the provisions of this Article 8 and shall be subject to the reasonable written approval of the other party.

### 8.1. Changes Requested by Tenant.

(a) Tenant may request Changes after Landlord approves the Approved Plans by notifying Landlord thereof in writing in substantially the same form as the AIA standard change order form (a "Tenant Change Order Request"), which Tenant Change Order Request shall detail the nature and extent of any requested Changes. If the nature of a Change requires revisions to the Approved Plans, then Tenant shall be solely responsible for the cost and expense of such revisions. Tenant Change Order Requests shall be signed by Tenant's Authorized Representative.

(b) Landlord shall approve or reject any Tenant Change Order Requests in accordance with the procedures established pursuant to Article 2. If Landlord does not approve in writing a Tenant Change Order Request, then such Tenant Change Order Request shall be deemed rejected by Landlord, and Tenant shall not be permitted to alter Tenant's Work as contemplated by such Tenant Change Order Request.

8.2. Changes Requested by Landlord. Landlord may request Changes after Landlord approves the Approved Plans by notifying Tenant thereof in writing in substantially the same form as the AIA standard change order form (a "Landlord Change Order Request"), which Landlord Change Order Request shall detail the nature and extent of any requested Changes. If the nature of a Change requires revisions to the Approved Plans, then Landlord shall be solely responsible for the cost and expense of such revisions. Landlord shall reimburse Tenant for all additional costs and expenses payable by Tenant to complete Tenant's Work due to a Landlord-requested Change in accordance with the payment provisions of this Work Letter.

8.3. Preparation of Estimates. Tenant shall, before proceeding with any Change, using its best efforts, prepare as soon as is reasonably practicable (but in no event more than five (5) business days after delivering a Tenant Change Order Request to Landlord or receipt of a Landlord Change Order Request) an estimate of the increased costs or savings that would result from such Change, as well as an estimate on such Change's effects on the Schedule. Landlord shall have five (5) business days after receipt of such information from Tenant to (a) in the case of a Tenant Change Order Request, approve or reject such Tenant Change Order Request in writing, or (b) in the case of a Landlord Change Order Request, notify Tenant in writing of Landlord's decision either to proceed with or abandon the Landlord-requested Change.

## 9. Miscellaneous.

9.1. Headings, Etc. Where applicable in this Work Letter, the singular includes the plural and the masculine or neuter includes the masculine, feminine and neuter. The section headings of this Work Letter are not a part of this Work Letter and shall have no effect upon the construction or interpretation of any part hereof.

9.2. Time of the Essence. Time is of the essence with respect to the performance of every provision of this Work Letter in which time of performance is a factor.

9.3. Covenants. Each provision of this Work Letter performable by Tenant shall be deemed both a covenant and a condition.

9.4. Consent. Whenever consent or approval of either party is required, that party shall not unreasonably withhold such consent or approval, except as may be expressly set forth to the contrary.

9.5. Entire Agreement. The terms of this Work Letter are intended by the parties as a final expression of their agreement with respect to the terms as are included herein, and may not be contradicted by evidence of any prior or contemporaneous agreement, other than the Amendment.

9.6. Invalid Provisions. Any provision of this Work Letter that shall prove to be invalid, void or illegal shall in no way affect, impair or invalidate any other provision hereof, and all other provisions of this Work Letter shall remain in full force and effect and shall be interpreted as if the invalid, void or illegal provision did not exist.

9.7. Construction. The language in all parts of this Work Letter shall be in all cases construed as a whole according to its fair meaning and not strictly for or against either Landlord or Tenant.

9.8. Assigns. Each of the covenants, conditions and agreements herein contained shall inure to the benefit of and shall apply to and be binding upon the parties hereto and their respective heirs; legatees; devisees; executors; administrators; and permitted successors, assigns, sublessees. Nothing in this Section 9.8 shall in any way alter the provisions of the Lease restricting assignment or subletting.

9.9. Authority. That individual or those individuals signing this Work Letter guarantee, warrant and represent that said individual or individuals have the power, authority and legal capacity to sign this Work Letter on behalf of and to bind all entities, corporations, partnerships, limited liability companies, joint venturers or other organizations and entities on whose behalf said individual or individuals have signed.

9.10. Counterparts. This Work Letter may be executed in one or more counterparts, each of which, when taken together, shall constitute one and the same document.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, Landlord and Tenant have executed this Work Letter to be effective on the date first above written.

LANDLORD:

BMR-SPRING MILL DRIVE, L.P.,  
a Delaware limited partnership

By: BMR-Spring Mill Drive GP LLC,  
a Delaware limited liability company

By: /s/ Gary A. Kreitzer

Name: Gary A. Kreitzer

Title: Executive VP

TENANT:

USA TECHNOLOGIES, INC.,  
a Pennsylvania corporation

By: /s/ Stephen P. Herbert

Name: Stephen P. Herbert

Title: President & COO

**SCHEDULE**



## **SCHEDULE 2.1 TO WORK LETTER**

### **TENANT WORK PLANS**

#### **Architectural Drawings**

1. Floor and reflected ceiling plans
2. Elevations (exterior and interior)
3. Sections (building and wall)
4. Details (exterior and interior)
5. Schedules (doors, windows, finishes, etc.)

#### **Engineering Drawings**

1. Mechanical
2. Plumbing
3. Electrical
4. Fire protection

**CERTIFICATIONS**

I, George R. Jensen, Jr., Chief Executive Officer of the registrant, 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 registrant 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)) 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. 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
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, of internal control over financial reporting to the registrant's auditors and the audit committee of the registrant's board of directors:
  - 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 registrant'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 registrant's internal control over financial reporting.

Date: February 13, 2007      /s/ George R. Jensen, Jr.  
George R. Jensen, Jr.,  
Chief Executive Officer

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**CERTIFICATIONS**

I, David M. DeMedio, Chief Financial Officer of the registrant, 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 registrant 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)) 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. 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
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, of internal control over financial reporting to the registrant's auditors and the audit committee of the registrant's board of directors:
  - 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 registrant'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 registrant's internal control over financial reporting.

Date: February 13, 2007      /s/ David M. DeMedio  
David M. DeMedio,  
Chief Financial Officer

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**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of USA Technologies, Inc., (the "Company") on Form 10-Q for the period ended December 31, 2006 (the "Report"), I, George R. Jensen, Jr., Chief Executive Officer of the Company, hereby certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), 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.

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

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**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of USA Technologies, Inc., (the "Company") on Form 10-Q for the period ended December 31, 2006 (the "Report"), I, David M. DeMedio, Chief Financial Officer of the Company, hereby certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), 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.

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