

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 8-K

Current Report Pursuant to Section 13 or 15(d) of  
the Securities Act of 1934

Date of report (Date of earliest event reported): March 15, 2002

USA TECHNOLOGIES, INC.  
(Exact Name of Registrant as Specified in its Charter)

Pennsylvania  
(State or other  
jurisdiction of  
incorporation)

33-70992  
(Commission File Number)

23-269963  
(I.R.S. Employer  
Identification No.)

200 Plant Avenue  
Wayne, Pennsylvania  
(Address of principal executive offices)

19087  
(Zip Code)

Registrant's telephone number, including area code: (610) 989-0340

Item 5. Other Events.

On March 15, 2002, the Company and Stitch Networks Corporation ("Stitch") and each of Stitch's stockholders entered into a binding letter of intent pursuant to which Stitch would merge with and into a wholly-owned subsidiary of the Company. The letter provides that at the time of the merger, the stockholders of Stitch would receive in exchange for their Stitch shares an aggregate of 24,000,000 shares of common stock of the Company and warrants to purchase up to 8,000,000 shares of common stock of the Company at \$.40 per share exercisable at any time prior to June 30, 2002.

Any statements set forth above concerning the letter of intent are not necessarily complete, and in each such instance, reference is made to the document, a copy of which is filed herewith as an Exhibit. Each such statement is qualified in its entirety by such reference.

Item 7. Exhibits.

(c) The following Exhibit is filed as part of this Form

8-K:

Exhibit No. -----	Description -----
10.1	Letter Agreement between the Company, Stitch Networks Corporation, David H. Goodman, Pennsylvania Early Stage Partners, L.P., and Maytag Holdings, Inc. dated March 15, 2002

SIGNATURES

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

USA TECHNOLOGIES, INC.

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

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George R. Jensen, Jr.,  
Chief Executive Officer

March 21, 2002

March 15, 2002

Stitch Networks Corporation  
500 North Walnut Road  
Kennett Square, PA 19348  
Attention: David Goodman, CEO and President

Re: Merger of USA Technologies, Inc. and Stitch Networks Corporation

Dear Mr. Goodman:

This letter summarizes our understanding of the intent of the parties concerning the merger ("Merger") of Stitch Networks Corporation (the "Target") with and into a wholly-owned subsidiary of USA Technologies, Inc. ("USTT").

1. Terms. The principal terms of the proposed merger are set forth in Annex I attached hereto and made a part hereof.

2. Conditions. In order to consummate the Merger, the number of authorized shares of common stock of USTT must be increased. In order to do so, USTT stockholder approval must be obtained. Therefore, any obligation of the parties to consummate the Merger will be subject to the receipt of such stockholder approval at a meeting to be held no later than May 17, 2002, as well as obtaining any and all other necessary regulatory or other approvals and all required consents of third parties. The parties will use their best efforts to obtain all such necessary approvals. The parties acknowledge and agree that they have completed their respective due diligence investigations and business reviews. Each of the Board of Directors of USTT and Target and all of the stockholders of Target ("Stockholders") have agreed and consented to this letter and have authorized Target and USTT (and its wholly-owned subsidiary) to enter into the definitive merger agreement ("Merger Agreement") and to consummate the transactions thereunder subject to USTT shareholder approval and obtaining all other required consents.

3. Non-Solicitation. In consideration of the time and effort which will be incurred by USTT, the Target and its Stockholders agree that, until May 17, 2002, neither they nor any of the Target's officers, directors, employees, stockholders, agents or representatives will (i) solicit, encourage or entertain alternative offers from parties other than USTT, (ii) furnish confidential information about the Target, its business, assets, liabilities, customers, technology, financial condition or results of operations to any person other than USTT.

4. Brokers and Finders. USTT, the Target and the Stockholders each represent to the other that except for Technology Partners (Holdings) LLC, who has acted on behalf of USTT, no broker or finder has acted for it in connection with the proposed transaction and that no broker or finder is entitled to any brokerage or finder's fees or other commission in connection with the proposed transaction. All of the commissions, costs and fees of Technology Partners (Holdings) LLC shall be borne by USTT.

5. Break Up Fee. In the event that USTT's stockholders do not approve the increase in the number of authorized shares of USTT common stock on or prior to May 17, 2002, then USTT shall pay a cash break up fee to Target of \$200,000 and the parties shall have no further obligations hereunder or under the Merger Agreement.

6. Regular Course. From and after the date hereof and until May 17, 2002, Target shall (a) continue to operate its business in the usual, customary, and ordinary manner, (b) make no changes in its authorized, issued or outstanding capital stock, and make no amendment to or change its Certificate of Incorporation or By-laws, (c) not declare, set aside, make provision for payment, or pay, any dividends on its capital stock, or make any loans to any affiliate, officer, shareholder, employee, or director, (d) not dispose of, or agree to dispose of, any assets, real, personal, or intangible, except in the ordinary course of business, and (e) make no change to any of its contracts, pension or profit sharing plans, nor enter into any agreements granting any additional benefits to any director, employee, shareholder, or consultant. From and after the date hereof, and until May 17, 2002, no Stockholder shall, directly or indirectly, transfer, sell or assign in any manner whatsoever any of such Stockholder's shares of stock in the Target. All of the Stockholder's shares of Target are owned of record and beneficially solely by the respective Stockholder and are not subject to any liens, encumbrances or other adverse claims.

7. Public Announcements. All public announcements relating to the transactions contemplated herein may be made by USTT at its discretion, and any other public announcements must be approved by USTT in advance.

We have instructed our attorneys to promptly proceed to prepare the Merger Agreement.

This letter is a binding letter of intent and shall be a legally enforceable agreement among the undersigned with respect to the matters set forth herein, subject to the conditions set forth herein. This letter shall be construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to its conflict of laws rules.

If this letter correctly sets forth your and each of the Stockholder's understanding, please sign the enclosed copy in the space provided below and return it to us today by 5:00 P.M. Eastern Standard Time, time being of the essence.

Very truly yours,

USA TECHNOLOGIES, INC.

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

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

ACKNOWLEDGED, APPROVED  
AND CONFIRMED:

STITCH NETWORKS CORPORATION

By: /s/ David H. Goodman

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Name: David H. Goodman  
Title: President & CEO

STOCKHOLDERS:

/s/ David H. Goodman

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DAVID H. GOODMAN

MAYTAG HOLDINGS, INC.

By: /s/ Roger K. Scholten

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Name: Roger K. Scholten  
Title: Director

PENNSYLVANIA EARLY STAGE PARTNERS, L.P.

By: Pennsylvania Early Stage Partners GP, L.L.C.,  
its general partner

By: /s/ Michael G. Bolton

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Name: Michael G. Bolton  
Title: Managing Director

## TERM SHEET

The following outline summarizes the principal terms of the merger (the "Merger") of Stitch Networks Corporation with and into a wholly-owned subsidiary of USA Technologies, Inc. The precise structure of the Merger will be determined after review of the proposed transaction by the parties' respective tax, legal, and other advisors.

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Parties.....	USA Acquisition, Inc., a Pennsylvania corporation wholly owned by USTT ("USAA"), and Stitch Networks Corporation, a Delaware corporation ("Target").
Merger.....	Target will be directly merged with and into USAA with USAA being the surviving corporation, and the shareholders of Target will exchange all of their capital stock of Target for the Merger Stock (as defined below).
Consideration.....	Upon consummation of the Merger, holders of Target common and preferred stock, warrants, options to purchase Target stock, and securities convertible into Target stock (the "Stitch Holders") will receive a total of 24,000,000 restricted shares of USTT common stock (the "Merger Stock"), such that, following the Merger, the Stitch Holders will own approximately 30% of the capital stock of USTT on a fully-diluted post merger basis.
Warrants.....	In addition to the Merger Stock, Stitch Holders will receive warrants to purchase 8,000,000 shares of USTT common stock at an exercise price of \$0.40 per share and a term that expires on June 30, 2002. These warrants shall include a cashless exercise feature in the event Stitch Holders cause at least \$5,000,000 of new equity capital on reasonable terms to be committed for investment in USTT prior to June 30, 2002.
Tax Treatment.....	The transaction shall be structured as a tax-free reorganization.

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Conditions

Precedent..... The transaction shall be subject to conventional conditions precedent, including: (a) the approval by the USTT shareholders of the increase in the authorized number of shares of common stock; and (b) the obtaining of all necessary material consents and approvals of governmental bodies and other third parties. The parties shall use their best efforts to satisfy such conditions precedent in a timely manner.

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Definitive

Documentation..... The parties intend to negotiate and enter into a definitive, binding agreement on the terms set forth herein (the "Merger Agreement") relating to the Transaction on or before March 29, 2002.

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Stockholder and

Board Approvals.....

Each of the Boards of USTT and Target and all of the stockholders of Target have already approved the Merger and authorized USTT and Target to enter into and consummate the Merger Agreement. Closing of the Merger will be conditioned upon the approval of USTT stockholders of the increase in the authorized shares of common stock which will be sought at a special stockholder's meeting to be called by USTT and held no later than May 17, 2002. If approved, closing of the Merger would be held no later than May 17, 2002.

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Board of Directors.....

Upon consummation of the Merger, three (3) persons selected by Target's pre-merger Board of Directors, one of whom shall be affiliated with Maytag, one of whom shall be affiliated with Pennsylvania Early Stage, and one of whom shall be an independent outside Director unconnected with Stitch, will be added to the Board of Directors of USTT, which shall consist of no more than ten (10) members post transaction. No later than December 31, 2002, one of the seven USTT directors shall resign and the Board of Directors of USTT shall then consist of no more than nine (9) members.

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Registration Rights..... On or before the expiration of the lock-up period, USTT will register the Merger Stock for resale by the Stitch Holders under the Securities Act of 1933, as amended ("Act"), pursuant to a Form SB-2. At any time such registration statement is not effective following the lock-up period, the Stitch Holders will also be entitled to "piggy-back" registration rights on registrations of USTT and any secondary offerings, subject to customary underwriters' cutback. USTT will pay registration expenses other than underwriters' discounts and commissions.

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Registration rights may be transferred to a transferee, who acquires at least 5% of the Merger Stock held by such transferor, provided that the transfer of registration rights to a partner, member, shareholder or affiliate of any holder of Merger Stock will not be subject to the foregoing restriction as to minimum share transfer.

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Lock-Up Period..... Stitch Holders will agree to a lock up on sales of the Merger Stock as follows: one-third of the Merger Stock for six months following the Merger; one-third of the Merger Stock for twelve months following the Merger; and one-third of the Merger Stock for eighteen months following the Merger.

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Representations and Warranties of Target..... As of the date of the Merger Agreement and as of the closing date, Target and each of the Stockholders, jointly and severally, will make usual and customary representations and warranties for a transaction of this nature, including the following:

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o Due organization, valid existence and good standing (including foreign qualifications) of Target;

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o Capitalization;  
o Corporate power and authority of Target;

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o Due authorization, execution, delivery and binding obligation of the Merger Agreement by or against the Target;

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o Restrictions against, and conflicts, violations, breaches or defaults resulting from, the transactions contemplated by the Merger Agreement;

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o Governmental and other third party consents, approvals, orders, authorizations, registrations, declaration or filings required with respect to Target in connection with the execution and delivery of, or consummation of the transactions contemplated by, the Merger Agreement;

o Books, records and accounts of Target;

o Compliance with law and permits, as well as non-infringement and ownership of intellectual property;

o Financial statements as of December 31, 2001 and year to date;

o Taxes;

o Employee benefits and labor matters;

o Access to all material documents and information;

o No undisclosed liabilities or agreements, including, without limitation, liabilities in respect of litigation; and

o Commissions, brokers and finders fees.

Representations and Warranties of USTT.....

As of the date of the Merger Agreement and as of the closing date, USTT will represent and warrant to Target as to matters concerning itself that are customary as to a public company for transactions of this nature, including without limitation, customary representations as to each of the matters set forth below:

o Due organization, valid existence and good standing (including foreign qualifications) of USTT;

o Capitalization;

o Corporate power and authority of USTT;

o Due authorization, execution, delivery and binding obligation of the Merger Agreement by USTT;

o Restrictions against, and conflicts, violations, breaches or defaults resulting from, the transactions contemplated by the Merger Agreement;

o Consents, approvals, orders, licenses, authorizations, registrations, declaration or filings required with respect to USTT in connection with the execution and delivery of, or consummation of the transactions contemplated by, the Merger Agreement;

o Registration of the USTT Stock;

o Commissions, brokers and finders fees; and  
o SEC filings

Confidentiality..... The parties have entered into a Mutual Confidentiality Agreement dated September 12, 2001 (the "Confidentiality Agreement"). The parties hereby reaffirm the provisions of the Confidentiality Agreement, which except as provided herein shall remain in full force and effect.

Indemnification Each of the Stockholders shall jointly and severally indemnify USTT and its affiliates from and against any and all damages, expenses, and costs whatsoever resulting from or arising out of the breach of any representation or warranty of Target or the Stockholders set forth in the Merger Agreement. The representations and warranties shall survive the Closing for a period of 1 year and there shall be a minimum "basket" amount of \$100,000. The Stockholder's indemnification obligations shall not exceed twenty percent of the value of the Merger Stock.