

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 March 31, 2016

OR

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

For the transition period from _____ to _____

Commission file number 001-33365

USA Technologies, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation or organization)

23-2679963

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

100 Deerfield Lane, Suite 140, Malvern, Pennsylvania

(Address of principal executive offices)

19355

(Zip Code)

(610) 989-0340

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer
Smaller reporting company

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 May 2, 2016, there were 36,734,629 shares of Common Stock, no par value, outstanding.

USA TECHNOLOGIES, INC.

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USA Technologies, Inc.
Consolidated Balance Sheets
(Unaudited)

(\$ in thousands, except shares)	March 31, 2016	June 30, 2015
Assets		
Current assets:		
Cash	\$ 14,901	\$ 11,374
Accounts receivable, less allowance for doubtful accounts of \$2,058 and \$1,309, respectively	8,345	5,971
Finance receivables	1,677	941
Inventory	2,341	4,216
Prepaid expenses and other current assets	1,060	574
Deferred income taxes	1,276	1,258
Total current assets	29,600	24,334
Finance receivables, less current portion	3,042	3,698
Other assets	337	350
Property and equipment, net	10,584	12,869
Deferred income taxes	25,701	25,788
Goodwill and intangibles	12,976	8,095
Total assets	\$ 82,240	\$ 75,134
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 12,029	\$ 10,542
Accrued expenses	3,339	2,108
Line of credit	6,980	4,000
Current obligations under long-term debt	625	478
Income taxes payable	-	54
Warrant liabilities	5,964	-
Deferred gain from sale-leaseback transactions	860	860
Total current liabilities	29,797	18,042
Long-term liabilities:		
Long-term debt, less current portion	1,742	1,854
Accrued expenses, less current portion	19	49
Warrant liabilities, less current portion	-	978
Deferred gain from sale-leaseback transactions, less current portion	255	900
Total long-term liabilities	2,016	3,781
Total liabilities	31,813	21,823
Shareholders' equity:		
Preferred stock, no par value:		
Authorized shares- 1,800,000 Series A convertible preferred- Authorized shares- 900,000 Issued and outstanding shares- 445,063 with liquidation preference of \$18,108 and \$17,440, respectively	3,138	3,138
Common stock, no par value: Authorized shares- 640,000,000 Issued and outstanding shares- 36,578,715 and 35,763,663, respectively	227,924	224,874
Accumulated deficit	(180,635)	(174,701)
Total shareholders' equity	50,427	53,311
Total liabilities and shareholders' equity	\$ 82,240	\$ 75,134

See accompanying notes.

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

(\$ in thousands, except per share data)	Three months ended March 31,		Nine months ended March 31,	
	2016	2015	2016	2015
Revenues:				
License and transaction fees	\$ 14,727	\$ 11,059	\$ 41,326	\$ 31,695
Equipment sales	5,634	4,298	14,138	8,736
Total revenues	20,361	15,357	55,464	40,431
Costs of sales/revenues:				
Cost of services	9,703	7,157	27,475	21,566
Cost of equipment	4,986	3,054	11,787	6,850
Total costs of sales/revenues	14,689	10,211	39,262	28,416
Gross profit	5,672	5,146	16,202	12,015
Operating expenses:				
Selling, general and administrative	6,094	4,281	15,652	11,444
Depreciation	173	135	439	456
Total operating expenses	6,267	4,416	16,091	11,900
Operating income (loss)	(595)	730	111	115
Other income (expense):				
Interest income	67	27	138	41
Interest expense	(180)	(85)	(403)	(209)
Change in fair value of warrant liabilities	(4,805)	(1,101)	(5,692)	(656)
Total other income (expense), net	(4,918)	(1,159)	(5,957)	(824)
Loss before provision for income taxes	(5,513)	(429)	(5,846)	(709)
Benefit (provision) for income taxes	93	(138)	(88)	(180)
Net loss	(5,420)	(567)	(5,934)	(889)
Cumulative preferred dividends	(334)	(334)	(668)	(668)
Net loss applicable to common shares	\$ (5,754)	\$ (901)	\$ (6,602)	\$ (1,557)
Net loss per common share - basic and diluted	\$ (0.16)	\$ (0.03)	\$ (0.18)	\$ (0.04)
Basic and diluted weighted average number of common shares outstanding	36,161,613	35,747,979	35,961,648	35,705,210

See accompanying notes.

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

(\$ in thousands, except shares)	Series A Convertible Preferred Stock		Common Stock		Accumulated Deficit	Total
	Shares	Amount	Shares	Amount		
Balance, June 30, 2015, as previously reported	442,968	\$ 3,138	35,747,242	\$ 224,874	\$ (174,701)	\$ 53,311
Adjustments (See Note 18 of the Notes to Consolidated Financial Statements)	2,095	-	16,421	-	-	-
Balance, June 30, 2015, as adjusted	<u>445,063</u>	<u>\$ 3,138</u>	<u>35,763,663</u>	<u>\$ 224,874</u>	<u>\$ (174,701)</u>	<u>\$ 53,311</u>
Warrants issued in conjunction with Line of Credit Agreement	-	-	-	52	-	52
Reclass of fair value of warrant liability upon exercise of warrants			-	706		706
Exercise of warrants	-	-	645,100	1,681	-	1,681
Stock based compensation						
2013 Stock Incentive Plan	-	-	169,913	377	-	377
2014 Stock Option Incentive Plan	-	-	12,785	274	-	274
Retirement of common stock	-	-	(12,746)	(40)	-	(40)
Net loss	-	-	-	-	(5,934)	(5,934)
Balance, March 31, 2016	<u>445,063</u>	<u>\$ 3,138</u>	<u>36,578,715</u>	<u>\$ 227,924</u>	<u>\$ (180,635)</u>	<u>\$ 50,427</u>

See accompanying notes.

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

(\$ in thousands)	Three months ended		Nine months ended	
	March 31,		March 31,	
	2016	2015	2016	2015
OPERATING ACTIVITIES:				
Net loss	\$ (5,420)	\$ (567)	\$ (5,934)	\$ (889)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Charges incurred in connection with the vesting and issuance of common stock and common stock options for employee and director compensation	142	216	651	541
Gain on disposal of property and equipment	(15)	(6)	(57)	(13)
Bad debt expense	506	302	980	602
Depreciation	1,190	1,433	3,863	4,350
Amortization of intangible assets	44	-	44	-
Change in fair value of warrant liabilities	4,805	1,101	5,692	656
Deferred income taxes, net	(93)	121	88	184
Recognition of deferred gain from sale-leaseback transactions	(215)	(216)	(645)	(619)
Changes in operating assets and liabilities, net of acquisition:				
Accounts receivable	(1,872)	(984)	(3,352)	(1,821)
Finance receivables	(154)	(2,248)	547	(3,782)
Inventory	250	651	1,118	(1,292)
Prepaid expenses and other assets	(160)	152	(366)	(207)
Accounts payable	4,154	(141)	1,487	(2,046)
Accrued expenses	1,166	234	1,151	(39)
Income taxes payable	-	17	(70)	(4)
Net cash provided by (used in) operating activities	4,328	65	5,197	(4,379)
INVESTING ACTIVITIES:				
Purchase and additions of property and equipment	(164)	(4)	(331)	(54)
Purchase of property for rental program	-	-	-	(1,642)
Proceeds from sale of rental equipment under sale-leaseback transactions	-	-	-	4,994
Proceeds from sale of property and equipment	19	19	124	54
Cash paid for assets acquired from VendScreen	(5,625)	-	(5,625)	-
Net cash provided by (used in) investing activities	(5,770)	15	(5,832)	3,352
FINANCING ACTIVITIES:				
Cash used for the retirement of common stock	-	-	(40)	(62)
Proceeds from exercise of common stock warrants	1,652	-	1,681	-
Proceeds (payments) from line of credit	33	-	3,033	(1,000)
Proceeds from long-term debt	-	1,753	-	1,753
Repayment of long-term debt	(151)	(92)	(512)	(261)
Net cash provided by financing activities	1,534	1,661	4,162	430
Net increase (decrease) in cash	92	1,741	3,527	(597)
Cash at beginning of period	14,809	6,734	11,374	9,072
Cash at end of period	<u>\$ 14,901</u>	<u>\$ 8,475</u>	<u>\$ 14,901</u>	<u>\$ 8,475</u>
<i>Supplemental disclosures of cash flow information:</i>				
Interest paid in cash	<u>\$ 191</u>	<u>\$ 67</u>	<u>\$ 404</u>	<u>\$ 202</u>
Depreciation expense allocated to cost of services	<u>\$ 1,051</u>	<u>\$ 1,271</u>	<u>\$ 3,436</u>	<u>\$ 3,867</u>
Reclass of rental program property to inventory, net	<u>\$ 347</u>	<u>\$ 1,374</u>	<u>\$ 845</u>	<u>\$ 1,393</u>
Prepaid items financed with debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103</u>	<u>\$ 103</u>
Equipment and software acquired under capital lease	<u>\$ 409</u>	<u>\$ -</u>	<u>\$ 444</u>	<u>\$ 108</u>
Disposal of property and equipment	<u>\$ 189</u>	<u>\$ 343</u>	<u>\$ 526</u>	<u>\$ 395</u>
Disposal of property and equipment under sale-leaseback transactions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,873</u>
Fair value of common stock warrants at issuance recorded as a debt discount	<u>\$ 52</u>	<u>\$ -</u>	<u>\$ 52</u>	<u>\$ -</u>
Debt financing costs financed with debt	<u>\$ 79</u>	<u>\$ -</u>	<u>\$ 79</u>	<u>\$ -</u>

See accompanying notes.

USA Technologies, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. ACCOUNTING POLICIES

BUSINESS

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

INTERIM FINANCIAL INFORMATION

The accompanying unaudited consolidated financial statements of USA Technologies, Inc. have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements and therefore should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended June 30, 2015. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting of normal recurring adjustments, have been included. Operating results for the three and nine-month periods ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending June 30, 2016. The balance sheet at June 30, 2015 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

USE OF ESTIMATES

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

CASH

The Company maintains its cash in bank deposit accounts, which may exceed federally insured limits at times.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Accounts receivable include amounts due to the Company for sales of equipment, other amounts due from customers, merchant service receivables, and unbilled amounts due from customers, net of the allowance for uncollectible accounts.

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments, including from a shortfall in the customer transaction fund flow from which the company would normally collect amounts due.

The allowance is determined through an analysis of various factors including the aging of the accounts receivable, the strength of the relationship with the customer, the capacity of the customer transaction fund flow to satisfy the amount due from the customer, an assessment of collection costs and other factors. The allowance for uncollectible accounts receivable is management’s best estimate as of the respective reporting date. If the factors described above were to deteriorate, additional amounts may need to be added to the allowance.

Changes in the estimated allowance are due to write-offs or collections of receivables. Other changes in the estimated allowance in the period are charged to bad debt expense and included in selling, general and administrative expenses on the statements of operations.

USA Technologies, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. ACCOUNTING POLICIES (CONTINUED)

FINANCE RECEIVABLES

The Company offers extended payment terms to certain customers for equipment sales under its QuickStart Program. In accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification® (“ASC”) Topic 840, “Leases”, agreements under the QuickStart Program qualify for sales-type lease accounting. Accordingly, the future minimum lease payments are classified as finance receivables in the Company’s consolidated balance sheets. Finance receivables or QuickStart leases are generally for a sixty-month term. Finance receivables are carried at their contractual amount and charged off against the allowance for credit losses when management determines that recovery is unlikely and the Company ceases collection efforts. The Company recognizes a portion of the note or lease payments as interest income in the accompanying consolidated financial statements based on the effective interest rate method.

INVENTORY

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

PROPERTY AND EQUIPMENT

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

INTANGIBLE ASSETS

The Company’s intangible assets include goodwill, trademarks, non-compete agreements, brand, developed technology and customer relationships.

The Company’s trademarks with an indefinite economic life are not being amortized. The trademarks, not subject to amortization, are related to the EnergyMiser asset group and consist of four trademarks. The Company tests indefinite-lived intangible assets for impairment using a two-step process. The first step screens for potential impairment, while the second step measures the amount of impairment. The Company uses a relief from royalty analysis to complete the first step in this process. Testing for impairment is to be done at least annually and at other times if events or circumstances arise that indicate that impairment may have occurred. The Company has selected April 1 as its annual test date for its indefinite-lived intangible assets.

Goodwill represents the excess of cost over fair value of the net assets purchased in acquisitions. The Company accounts for goodwill in accordance with ASC 350, “Intangibles – Goodwill and Other”. Under ASC 350, goodwill is not amortized to earnings, but instead is subject to periodic testing for impairment. Testing for impairment is to be done at least annually and at other times if events or circumstances arise that indicate that impairment may have occurred. The Company has selected April 1 as its annual test date.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The FASB issued Accounting Standards Update (“ASU”) 2010-06, “Fair Value Measurements and Disclosures (“Topic 820”): Improving Disclosures about Fair Value Measurements.” ASU 2010-06 amends certain disclosure requirements of Subtopic 820-10. This ASU provides additional disclosures for transfers in and out of Levels 1 and 2 and for activity in Level 3. This ASU also clarifies certain other existing disclosure requirements including level of desegregation and disclosures around inputs and valuation techniques.

The Company’s financial assets and liabilities are accounted for in accordance with ASC 820 “Fair Value Measurement.” Under ASC 820 the Company uses inputs from the three levels of the fair value hierarchy to measure its financial assets and liabilities. The three levels are as follows:

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

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

USA Technologies, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. ACCOUNTING POLICIES (CONTINUED)

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

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

REVENUE RECOGNITION

Revenue from the sale or QuickStart lease of equipment is recognized on the terms of freight-on-board shipping point. Activation fee revenue, if applicable, is recognized when the Company's cashless payment device is initially activated for use on the Company network. Transaction processing revenue is recognized upon the usage of the Company's cashless payment and control network. License fees for access to the Company's devices and network services are recognized on a monthly basis. In all cases, revenue is only recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed and determinable, and collection of the resulting receivable is reasonably assured. The Company estimates an allowance for product returns at the date of sale and license and transaction fee refunds on a monthly basis.

ePort hardware is available to customers under the QuickStart program pursuant to which the customer would enter into a five-year non-cancelable lease with either the Company or a third-party leasing company for the devices. At the end of the lease period, the customer would have the option to purchase the device at its residual value.

PREFERRED STOCK

Preferred stock is recorded on the balance sheet in the equity section at its par value.

ACCOUNTING FOR EQUITY AWARDS

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

INCOME TAXES

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

Income taxes are computed using the asset and liability method of accounting. Under the asset and liability method, a deferred tax asset or liability is recognized for estimated future tax effects attributable to temporary differences and carryforwards. The measurement of deferred income tax assets is adjusted by a valuation allowance, if necessary, to recognize future tax benefits only to the extent that, based on available evidence, it is more likely than not such benefits will be realized. The Company recognizes interest and penalties, if any, related to uncertain tax positions in selling, general and administrative expenses. No interest or penalties related to uncertain tax positions were accrued or incurred during the three and nine months ended March 31, 2016 and 2015.

EARNINGS (LOSS) PER COMMON SHARE

Basic earnings (loss) per share are calculated by dividing income (loss) applicable to common shares by the weighted average common shares outstanding for the period. Diluted earnings per share is calculated by dividing income (loss) applicable to common shares by the weighted average common shares outstanding for the period plus the effect of potential common shares unless such effect is anti-dilutive.

USA Technologies, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. ACCOUNTING POLICIES (CONTINUED)

RECLASSIFICATION

As reported in the Company's Form 10-Q for the quarter ended September 30, 2015, commencing with the September 30, 2015 financial statements, the Company changed the manner in which it presents certain uncollected customer accounts receivable and the related allowance in its consolidated balance sheets and the related statements of cash flows. These accounts receivable represent a large number of small balance amounts due from customers for processing and service fees which had not been billed to customers, and as to which, there had been no customer transaction proceeds from which the Company could collect the amounts due in accordance with its normal procedures. The previous accounting classification recorded these amounts as a reduction of its accounts payable in the consolidated balance sheets and the related statements of cash flows. The new accounting classification moves these amounts to accounts receivable and allowance for bad debt.

Accordingly, the respective balances for all prior periods presented in these financial statements were reclassified in order to be consistent with and comparable to the accounting classification of these items in our March 31, 2016 financial statements. The new accounting classification as well as the reclassification for prior periods had no effect on the consolidated statements of operations or the consolidated statements of shareholders' equity. The details of the reclassification of the respective consolidated balance sheets and the consolidated statements of cash flows amounts are presented in the table below:

(\$ in thousands)	June 30, 2015 Balances		
	As previously reported	Reclassification	As reclassified
Consolidated Balance Sheet Line Items			
Accounts Receivable, net of allowance for doubtful accounts:			
Reclassification of balances included in accounts payable to accounts receivable		\$ 2,114	
Reclassification of the allowance for doubtful accounts in accounts payable		(815)	
	<u>\$ 4,672</u>	<u>\$ 1,299</u>	<u>\$ 5,971</u>
Allowance for Doubtful Accounts:			
Reclassification of the allowance for doubtful accounts in accounts payable	\$ (494)	\$ (815)	\$ (1,309)
Accounts Payable:			
Reclassification of balances included in accounts payable to accounts receivable		\$ 2,114	
Reclassification of the allowance for doubtful accounts in accounts payable		(815)	
	<u>\$ 9,243</u>	<u>\$ 1,299</u>	<u>\$ 10,542</u>
(\$ in thousands)	For the three months ended March 31, 2015		
	As previously reported	Reclassification	As reclassified
Consolidated Statement of Cash Flow Line Items			
Accounts Receivable			
Reclassification of cash provided by and included in accounts payable to accounts receivable	\$ (974)	\$ (10)	\$ (984)
Accounts Payable:			
Reclassification of cash used in and included in accounts payable to accounts receivable	\$ (151)	\$ 10	\$ (141)

USA Technologies, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. ACCOUNTING POLICIES (CONTINUED)

(\$ in thousands)	For the nine months ended March 31, 2015		
	As previously reported	Reclassification	As reclassified
Consolidated Statement of Cash Flow Line Items			
Accounts Receivable			
Reclassification of cash provided by and included in accounts payable to accounts receivable	\$ (1,257)	\$ (564)	\$ (1,821)
Accounts Payable:			
Reclassification of cash used in and included in accounts payable to accounts receivable	\$ (2,610)	\$ 564	\$ (2,046)

SOFTWARE DEVELOPMENT COSTS

In the second quarter of fiscal 2016, the Company changed the manner in which it treats certain costs for software developed for internal use, which are accounted for through the capitalization of those costs incurred in connection with developing or obtaining internal-use software. These capitalized costs for internal-use software are included in fixed assets in the consolidated balance sheet and are amortized over three years.

Costs incurred during the preliminary project along with post-implementation stages of internal use computer software development and costs incurred to maintain existing product offerings are expensed as incurred. The capitalization and ongoing assessment of recoverability of development costs require considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility and estimated economic life.

OTHER COMPREHENSIVE INCOME

ASC 220, "Comprehensive Income", prescribes the reporting required for comprehensive income and items of other comprehensive income. Entities having no items of other comprehensive income are not required to report on comprehensive income. The Company has no items of other comprehensive income for the three and nine months ended March 31, 2016.

NEW ACCOUNTING PRONOUNCEMENTS

The Company is evaluating whether the effects of the following recent accounting pronouncements or any other recently issued, but not yet effective accounting standards, will have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In September 2015, the FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments". ASU 2015-16 eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. ASU 2015-16 will be effective for the Company beginning with the quarter ending September 30, 2016. Since this standard is prospective, the impact of ASU 2015-16 on the Company's financial condition, results of operations and cash flows will depend upon the nature of any measurement period adjustments identified in future periods.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"), which will require entities to present all deferred tax liabilities and assets as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. The standard will be effective for the Company beginning with the quarter ending September 30, 2017. Early application is permitted. The standard can be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented.

In February 2016, the FASB issued ASU 2016-02 "Leases" (Topic 842). This pronouncement will be effective for the Company beginning with the quarter ending September 30, 2019.

In March 2016, the FASB issued ASU 2016-09 "Compensation – Stock Compensation" (Topic 718). This pronouncement will be effective for the Company beginning with the quarter ending September 30, 2016.

USA Technologies, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

2. ACQUISITION

VENDSCREEN, INC.

On January 15, 2016, the Company executed an Asset Purchase Agreement with Vendscreen, Inc. (“VendScreen”), a Portland, Oregon based developer of vending industry cashless payment technology, by which it acquired substantially all of VendScreen’s assets and assumed specified liabilities, for a cash payment of \$5.625 million. The purchase price was funded using \$2.625 million in cash, and the balance of \$3.0 million from a term loan which was converted from a line of credit.

This acquisition expands the Company’s capability with interactive media (touchscreen) and content delivery through VendScreen’s cloud-based content delivery platform, device platform and products, customer base, vendor management system (VMS) integration, and consumer product information including nutritional data. In addition to new technology and services, the acquisition adds a West Coast operational footprint, with former VendScreen employees able to offer expanded customer services, sales and technical support.

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

(\$ in thousands)

Consideration:	
Fair value of total consideration paid in cash	\$ 5,625
Acquisition / integration expenses:	
	\$ 584
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Financial Assets:	
Accounts receivable	\$ 3
Finance receivables	628
Other current assets	20
Deferred income taxes	18
	<u>669</u>
Property, and & equipment	81
Identifiable intangible assets:	
Developed technology	639
Customer relationships	149
Brand	95
Noncompete agreements	2
Fair value of intangible assets	<u>885</u>
Financial liabilities	
Accrued liabilities	(50)
Total identifiable net assets	<u>\$ 1,585</u>
Goodwill	<u>4,040</u>
Total Fair Value	<u><u>\$ 5,625</u></u>

Of the \$885 thousand of acquired intangible assets, \$639 thousand was assigned to developed technology that is subject to amortization over 5 years, \$149 thousand was assigned to customer relationships which are subject to amortization over 10 years; \$2 thousand was assigned to a non-compete agreement that is subject to amortization over 2 years, and \$95 thousand was assigned to the brand that is subject to amortization over 3 years. All of the intangible assets are amortizable for income tax purposes.

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Substantially all of the goodwill is amortizable for income tax purposes.

VendScreen has been included in the accompanying consolidated financial statements of the Company since the date of acquisition. The \$584 thousand of acquisition / integration expenses consists of non-recurring expenses incurred in connection with the acquisition and integration of the VendScreen business and were included in SG&A expenses during the nine months ended March 31, 2016.

3. EARNINGS PER SHARE CALCULATION

The calculation of basic and diluted earnings per share is presented below:

(\$ in thousands, except per share data)	Three months ended March 31,		Nine months ended March 31,	
	2016	2015	2016	2015
Numerator for basic earnings per share - Net loss available to common shareholders	\$ (5,754)	\$ (901)	\$ (6,602)	\$ (1,557)
Gain recorded for reduction in fair value of warrants*	-	-	-	-
Numerator for diluted earnings per share - Net loss available to common shareholders	<u>\$ (5,754)</u>	<u>\$ (901)</u>	<u>\$ (6,602)</u>	<u>\$ (1,557)</u>
Denominator for basic earnings per share - Weighted average shares outstanding	36,161,613	35,747,979	35,961,648	35,705,210
Effect of dilutive potential common shares*	-	-	-	-
Denominator for diluted earnings per share - Adjusted weighted average shares outstanding	<u>36,161,613</u>	<u>35,747,979</u>	<u>35,961,648</u>	<u>35,705,210</u>
Basic and diluted loss per share	\$ (0.16)	\$ (0.03)	\$ (0.18)	\$ (0.04)

* No adjustment necessary as the effects would be anti-dilutive.

4. FINANCE RECEIVABLES

Finance receivables consist of the following:

(\$ in thousands)	March 31, 2016	June 30, 2015
	(unaudited)	
Total finance receivables	\$ 4,719	\$ 4,639
Less current portion	1,677	941
Non-current portion of finance receivables	<u>\$ 3,042</u>	<u>\$ 3,698</u>

The Company collects monthly payments of its finance receivables from the customers' transaction fund flow. Accordingly, as the fund flow from these customers' transactions is sufficient to satisfy the amount due to the Company, the risk of loss is considered remote and the Company has not provided for an allowance for credit losses for finance receivables as of March 31, 2016 and June 30, 2015.

Credit Quality Indicators
As of March 31, 2016
(unaudited)

(\$ in thousands)	March 31, 2016	June 30, 2015
	(unaudited)	
Credit risk profile based on payment activity:		
Performing	\$ 4,671	\$ 4,619
Nonperforming	48	20
Total	<u>\$ 4,719</u>	<u>\$ 4,639</u>

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Age Analysis of Past Due Finance Receivables
As of March 31, 2016
(unaudited)

(\$ in thousands)	31 – 60 Days Past Due	61 – 90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Finance Receivables
QuickStart Leases	\$ 30	\$ 3	\$ 15	\$ 48	\$ 4,671	\$ 4,719

Age Analysis of Past Due Finance Receivables
As of June 30, 2015

(\$ in thousands)	31 – 60 Days Past Due	61 – 90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Finance Receivables
QuickStart Leases	\$ -	\$ 15	\$ 5	\$ 20	\$ 4,619	\$ 4,639

5. PROPERTY AND EQUIPMENT

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

(\$'s in thousands)	Useful Lives	March 31, 2016 (unaudited)		
		Cost	Accumulated Depreciation	Net
Computer equipment and software	3-7 years	\$ 5,420	\$ (4,287)	\$ 1,133
Property and equipment used for rental program	5 years	26,789	(17,553)	9,236
Furniture and equipment	3-7 years	828	(626)	202
Leasehold improvements	Lesser of life or lease term	575	(562)	13
		<u>\$ 33,612</u>	<u>\$ (23,028)</u>	<u>\$ 10,584</u>

(\$'s in thousands)	Useful Lives	June 30, 2015		
		Cost	Accumulated Depreciation	Net
Computer equipment and purchased software	3-7 years	\$ 4,670	\$ (4,017)	\$ 653
Property and equipment used for rental program	5 years	26,469	(14,476)	11,993
Furniture and equipment	3-7 years	723	(572)	151
Leasehold improvements	Lesser of life or lease term	575	(503)	72
		<u>\$ 32,437</u>	<u>\$ (19,568)</u>	<u>\$ 12,869</u>

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5. PROPERTY AND EQUIPMENT (CONTINUED)

Assets under capital lease totaled approximately \$2.6 million and \$2.1 million as of March 31, 2016 and June 30, 2015, respectively. Capital lease amortization of approximately \$69 thousand and \$130 thousand is included in depreciation expense for the three-month periods ended March 31, 2016 and 2015, respectively. Capital lease amortization of approximately \$208 thousand and \$271 thousand is included in depreciation expense for the nine-month periods ended March 31, 2016 and 2015, respectively.

6. GOODWILL AND INTANGIBLES

There was \$44 thousand of amortization expense relating to acquired intangible assets during the three and nine months ended March 31, 2016. There was no amortization expense relating to acquired intangible assets during the three and nine months ended March 31, 2015. Intangible asset balances consisted of the following:

	Beginning Balance July 1, 2015	Nine months ended March 31, 2016		Ending Balance March 31, 2016	Amortization Period
		Additions/ Adjustments	Amortization		
Intangible assets:					
Goodwill	\$ 7,663	\$ 4,040	\$ -	\$ 11,703	Indefinite
Trademarks - Indefinite	432	-	-	432	Indefinite
Non-compete agreements	-	2	-	2	2 years
Brand	-	95	(8)	87	3 years
Developed technology	-	639	(32)	607	5 years
Customer relationships	-	149	(4)	145	10 years
Total	\$ 8,095	\$ 4,925	\$ (44)	\$ 12,976	

	Beginning Balance July 1, 2014	Year ended June 30, 2015		Ending Balance June 30, 2015	Amortization Period
		Additions/ Adjustments	Amortization		
Intangible assets:					
Goodwill	\$ 7,663	\$ -	\$ -	\$ 7,663	Indefinite
Trademarks - Indefinite	432	-	-	432	Indefinite
Total	\$ 8,095	\$ -	\$ -	\$ 8,095	

7. ACCRUED EXPENSES

Accrued expenses consist of the following:

(\$ in thousands)	March 31, 2016 (unaudited)	June 30, 2015
Accrued compensation and related sales commissions	\$ 1,135	\$ 673
Accrued professional fees	673	301
Accrued taxes and filing fees	526	505
Advanced customer billings	749	390
Accrued rent	7	75
Accrued other	268	213
	<u>3,358</u>	<u>2,157</u>
Less current portion	(3,339)	(2,108)
	<u>\$ 19</u>	<u>\$ 49</u>

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8. LINE OF CREDIT

On January 15, 2016, the Company and Avidbank Corporate Finance, a division of Avidbank (“Avidbank”) entered into a Fifteenth Amendment (the “Amendment”) to the Loan and Security Agreement (as amended, the “Avidbank Loan Agreement”) previously entered into between them. The Avidbank Loan Agreement provided for a secured asset-based revolving line of credit facility (the “Avidbank Line of Credit”) of up to \$7.0 million. The outstanding balance of the amounts advanced under the Avidbank Line of Credit bear interest at 2% above the prime rate as published in *The Wall Street Journal* or five percent (5%), whichever is higher. Avidbank also made a three-year term loan to the Company in the principal amount of \$3.0 million (the “Term Loan”). The Term Loan was used by the Company to repay to Avidbank an advance that had been made to the Company under the Avidbank Line of Credit in December 2015, and which had been used by the Company to pay for the VendScreen business. The Term Loan provides that interest only is payable monthly during year one, interest and principal is payable monthly during years two and three, and all outstanding principal and accrued interest is due and payable on the third anniversary of the Term Loan. The Term Loan bears interest at an annual rate equal to 1.75% above the prime rate as published from time to time by *The Wall Street Journal*, or five percent (5%), whichever is higher. The Amendment increased the amount available under the Avidbank Line of Credit to \$7.5 million less the amount then outstanding under the Term Loan.

On March 29, 2016, the Company entered into a Loan and Security Agreement and other ancillary documents (the “Heritage Loan Documents”) with Heritage Bank of Commerce (“Heritage Bank”), providing for a secured asset-based revolving line of credit in an amount of up to \$12.0 million (the “Heritage Line of Credit”).

The Company utilized approximately \$7.0 million under the Heritage Line of Credit to satisfy the existing Avidbank Line of Credit and related Term Loan, and approximately \$100 thousand under the Heritage Line of Credit to pay closing fees, recorded as a debt discount, of Heritage Bank. The amount of advances remaining available to the Company under the Heritage Line of Credit as of March 31, 2016 was approximately \$4.8 million.

The Heritage Loan Documents provide that the aggregate amount of advances under the Heritage Line of Credit shall not exceed the lesser of (i) \$12.0 million, or (ii) eighty-five percent (85%) of license and transaction fee revenue (as is reflected as such in the Company’s consolidated statement of operations) for the preceding three (3) calendar months.

The outstanding daily balance of the amounts advanced under the Heritage Line of Credit will bear interest at 2.25% above the prime rate as published from time to time in *The Wall Street Journal*. At March 31, 2016, this prime rate was 3.50%. Interest is payable by the Company to Heritage Bank on a monthly basis.

The Heritage Line of Credit and the Company’s obligations under the Heritage Loan Documents are secured by substantially all of the Company’s assets, including its intellectual property.

The maturity date of the Heritage Line of Credit is March 29, 2017. At the time of maturity, all outstanding advances under the Heritage Line of Credit as well as any unpaid interest are due and payable. Prior to maturity of the Heritage Line of Credit, the Company may prepay amounts due under the Heritage Line of Credit without penalty, and subject to the terms of the Heritage Loan Documents, may re-borrow any such amounts.

The Heritage Loan Documents contain customary representations and warranties and affirmative and negative covenants applicable to the Company. The Heritage Loan Documents also require the Company to achieve a minimum Adjusted EBITDA, as defined in the Heritage Loan Documents, measured on a quarterly basis. The Heritage Loan Documents also require that the number of the Company’s connections as of the end of each fiscal quarter shall not decrease by more than five percent as compared to the number of the Company’s connections as of the end of the immediately prior fiscal quarter.

The Heritage Loan Documents also contain customary events of default, including, among other things, payment defaults, breaches of covenants, and bankruptcy and insolvency events, subject to grace periods in certain instances. Upon an event of default, Heritage Bank may declare all of the outstanding obligations of the Company under the Heritage Line of Credit and Heritage Loan Documents to be immediately due and payable, and exercise any other rights provided for under the Heritage Loan Documents, including foreclosing on the collateral securing the Heritage Loan Documents.

In connection with the Heritage Loan Documents, the Company issued to Heritage Bank warrants to purchase up to 23,978 shares of common stock of the Company at an exercise price of \$5.00 per share. The warrants are exercisable at any time through March 29, 2021 subject to earlier termination in the event of a business combination (as defined in the Heritage Loan Documents).

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8. LINE OF CREDIT (CONTINUED)

The fair value of the warrants of \$52 thousand was charged against the current obligation under the line of credit and will be amortized on a straight-line basis over 12 months. The Black-Sholes method was used to calculate fair value.

The balance due on the Heritage line of credit was \$7.1 million and \$4.0 million at March 31, 2016 and June 30, 2015, respectively. As of March 31, 2016 \$4.9 million was available under our line of credit.

(\$ in thousands)	As of or Nine Months Ended March 31,	
	2016	2015
Principal balance at period-end	\$ 7,111	\$ 4,000
Unamortized discount	(131)	-
Line of credit, net	<u>\$ 6,980</u>	<u>\$ 4,000</u>
Maximum amount outstanding at any month end	\$ 7,111	\$ 5,000
Average balance outstanding during the period	\$ 4,230	\$ 4,100
Weighted-average interest rate:		
As of the period-end	5.8%	5.3%
Paid during the period	5.3%	5.3%

(\$ in thousands)	As of or Three Months Ended March 31,	
	2016	2015
Principal balance at period-end	\$ 7,111	\$ 4,000
Unamortized discount	(131)	-
Line of credit, net	<u>\$ 6,980</u>	<u>\$ 4,000</u>
Maximum amount outstanding at any month end	\$ 7,111	\$ 4,000
Average balance outstanding during the period	\$ 4,564	\$ 4,000
Weighted-average interest rate:		
As of the period-end	5.8%	5.3%
Paid during the period	5.5%	5.3%

Interest expense on the applicable line of credit was approximately \$48 thousand and \$55 thousand during each of the three months ended March 31, 2016 and 2015, respectively. Interest expense on the applicable line of credit was approximately \$156 thousand and \$158 thousand during the nine months ended March 31, 2016 and 2015, respectively.

9. LONG-TERM DEBT

CAPITAL LEASES

The Company periodically enters into capital lease obligations to finance certain office and network equipment for use in its daily operations. During the nine-month period ended March 31, 2016 the Company entered into capital lease obligations of \$444 thousand. The interest rates on these obligations ranged from approximately 5.6% to 9.0%. The value of the acquired equipment is included in property and equipment and amortized accordingly.

OTHER LOAN AGREEMENTS

The Company periodically enters into other loan agreements to finance the purchase of various assets as needed, including computer equipment, insurance premiums, network equipment and software for use in its operations. During the nine-month period ended March 31, 2016, the Company entered into loan agreements for \$103 thousand. The interest rates on these obligations were approximately 5.3%. The value of these financed insurance premiums acquired is included in prepaid expenses and other assets and expensed accordingly.

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9. LONG-TERM DEBT (CONTINUED)

ASSIGNMENT OF QUICKSTART LEASES

In February and May 2015, the Company assigned its interest in certain finance receivables (various sixty-month QuickStart leases) to third-party finance companies in exchange for cash and the assumption of financing obligations in the aggregate of \$1.8 million and \$304 thousand, respectively. These assignment transactions contain recourse provisions for the Company which requires the proceeds from the assignment to be treated as long-term debt. The financing obligations range in rate from 9.4% to 9.5%.

The balance of long-term debt as of March 31, 2016 and June 30, 2015 are shown in the table below.

(\$ in thousands)	March 31, 2016 <u>(unaudited)</u>	June 30, 2015 <u></u>
Capital lease obligations	\$ 667	\$ 338
Other loan agreements	12	-
Lease financing obligations	<u>1,688</u>	<u>1,994</u>
	2,367	2,332
Less current portion	625	478
	<u>\$ 1,742</u>	<u>\$ 1,854</u>

The maturities of long-term debt for each of the fiscal years following March 31, 2016 are as follows:

2016 (remaining three months)	\$ 157
2017	631
2018	628
2019	588
2020	358
Thereafter	5
	<u>\$ 2,367</u>

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10. FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with the fair value hierarchy described in Note 1, the following table shows the fair value of the Company's financial instrument that is required to be measured at fair value as of March 31, 2016 and June 30, 2015:

(\$ in thousands)				
March 31, 2016 (unaudited)	Level 1	Level 2	Level 3	Total
Common stock warrant liability, 3.4 million warrants exercisable at \$2.6058 from September 18, 2011 through September 18, 2016	\$ -	\$ -	\$ 5,964	\$ 5,964
June 30, 2015	Level 1	Level 2	Level 3	Total
Common stock warrant liability, 3.9 million warrants exercisable at \$2.6058 from September 18, 2011 through September 18, 2016	\$ -	\$ -	\$ 978	\$ 978

As of March 31, 2016 and June 30, 2015, the Company held no Level 1 or Level 2 financial instruments.

As of March 31, 2016 and June 30, 2015, the fair values of the Company's Level 3 financial instrument totaled \$5.964 million and \$978 thousand for 3.4 million and 3.9 million warrants, respectively. The Level 3 financial instrument consists of common stock warrants issued by the Company in March 2011, which include features requiring liability treatment of the warrants. The fair value of warrants issued in March 2011 to purchase shares of the Company's common stock is based on valuations performed by an independent third party valuation firm. The fair value was determined using proprietary valuation models using the quality of the underlying securities of the warrants, restrictions on the warrants and security underlying the warrants, time restrictions and precedent sale transactions completed in the secondary market or in other private transactions. There were no transfers of assets or liabilities between level 1, level 2, or level 3 during the three and nine months ended March 31, 2016 and 2015.

The following table summarizes the changes in fair value of the Company's Level 3 financial instruments for the three and nine months ended March 31, 2016 and 2015.

(\$ in thousands)	Three months ended March 31,	
	2016	2015
Beginning balance	\$ (1,865)	\$ (140)
Increase due to change in fair value of warrant liabilities	(4,805)	(1,101)
Reduction due to warrant exercises	706	-
Ending balance	<u>\$ (5,964)</u>	<u>\$ (1,241)</u>
(\$ in thousands)	Nine months ended March 31,	
	2016	2015
Beginning balance	\$ (978)	\$ (585)
Increase due to change in fair value of warrant liabilities	(5,692)	(656)
Reduction due to warrant exercises	706	-
Ending balance	<u>\$ (5,964)</u>	<u>\$ (1,241)</u>

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10. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

During the third quarter of 2016, 500,000 warrants were exercised. In order to estimate the fair value effect, the fair values per warrant as determined by the independent third party as of December 31, 2015 and March 31, 2016 were used as reference points. The fair value on the day of exercise of each tranche of warrants is calculated between these two reference points based on the change in the closing USAT stock price from December 31, 2015 to the day of exercise.

11. WARRANTS

There were 634,100 exercises during the three months ended March 31, 2016, including the 500,000 warrants discussed in Note 10. During the nine months ended March 31, 2016, warrants were exercised at \$2.6058 per share resulting in the issuance of 645,100 shares of common stock with proceeds of \$1.681 million. The fair value of the 500,000 warrants was reclassified from liability to equity upon exercise. There were no exercises of warrants during the three or nine months ended March 31, 2015.

Warrant activity for the three and nine-month periods ended March 31, 2016 was as follows:

	Warrants
Outstanding at June 30, 2015	4,309,000
Issued	-
Exercised	(11,000)
Expired	-
Outstanding at September 30, 2015	4,298,000
Issued	-
Exercised	-
Expired	-
Outstanding at December 31, 2015	4,298,000
Issued	23,978
Exercised	(634,100)
Expired	-
Outstanding at March 31, 2016	3,687,878

12. INCOME TAXES

For the three and nine months ended March 31, 2016, income tax benefit/(provision) of \$93 thousand and \$(88) thousand, respectively, (substantially all deferred income taxes) were recorded. The benefit/(provision) consist of the tax effect of the change in the fair value of warrant liabilities which was treated discretely, offset by a tax benefit based upon loss before income taxes using an estimated annual effective income tax rate of 33% for the fiscal year ending June 30, 2016.

For the three and nine months ended March 31, 2015, income tax provisions of \$(138) thousand and \$(180) thousand, respectively, (substantially all deferred income taxes) were recorded; of the nine month amount, \$(395) thousand was due to the decrease in the applicable tax rate utilized to tax affect the deferred tax assets that was caused by a state income tax law change. The remaining benefit of \$215 thousand for the nine months ended March 31, 2015 and the tax provision for the three months ended March 31, 2015 were based upon income (loss) before provision for income taxes using an estimated annual effective income tax rate for the fiscal year ending June 30, 2015 of 64% and a provision for the tax effect of the change in the fair value of warrant liabilities which was treated discretely.

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13. STOCK BASED COMPENSATION PLANS

STOCK OPTIONS

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for options granted during:

	Nine months ended March 31,	
	2016	2015
Expected volatility	59-66%	79%
Expected life	4 - 4.5 years	7 years
Expected dividends	0.00%	0.00%
Risk-free interest rate	1.34-1.49%	2.04%

Stock based compensation related to stock options for the nine months ended March 31, 2016 and 2015 was \$274 thousand and \$257 thousand, respectively. Unrecognized compensation related to stock option grants as of March 31, 2016 was \$229 thousand.

Changes in outstanding stock options for the three months ended March 31, 2016 and 2015 consisted of the following:

	For the three months ended March 31,					
	2016			2015		
	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Options outstanding, beginning of period	658,474	\$ 2.14	\$ 1.41	448,888	\$ 1.87	\$ 1.33
Granted	75,000	\$ 2.94	\$ 1.43	85,000	\$ 1.70	\$ 1.19
Forfeited	(90,000)	\$ 3.38	\$ 1.81	-	\$ -	\$ -
Expired	-	\$ -	\$ -	-	\$ -	\$ -
Exercised	(33,333)	\$ 1.80	\$ 1.27	-	\$ -	\$ -
Options outstanding, end of period	<u>610,141</u>	\$ 2.07	\$ 1.36	<u>533,888</u>	\$ 1.84	\$ 1.31

Changes in outstanding stock options for the nine months ended March 31, 2016 and 2015 consisted of the following:

	For the nine months ended March 31,					
	2016			2015		
	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Options outstanding, beginning of period	538,888	\$ 1.86	\$ 1.33	120,000	\$ 2.05	\$ 1.49
Granted	194,586	\$ 3.21	\$ 1.64	413,888	\$ 1.78	\$ 1.25
Forfeited	(90,000)	\$ 3.38	\$ 1.81	-	\$ -	\$ -
Expired	-	\$ -	\$ -	-	\$ -	\$ -
Exercised	(33,333)	\$ 1.80	\$ 1.27	-	\$ -	\$ -
Options outstanding, end of period	<u>610,141</u>	\$ 2.07	\$ 1.36	<u>533,888</u>	\$ 1.84	\$ 1.31

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13. STOCK BASED COMPENSATION PLANS (CONTINUED)

Changes in unvested stock options for the three months ended March 31, 2016 and 2015 consisted of the following:

	For the three months ended March 31,			
	2016		2015	
	Options	Weighted Average Grant Date Fair Value	Options	Weighted Average Grant Date Fair Value
Unvested options, beginning of period	396,251	\$ 1.49	448,888	\$ 1.33
Granted	75,000	\$ 1.43	-	\$ -
Vested	(28,335)	\$ 1.27	-	\$ -
Forfeited	(90,000)	\$ 1.81	-	\$ -
Unvested options, end of period	<u>352,916</u>	<u>\$ 1.41</u>	<u>448,888</u>	<u>\$ 1.33</u>

Changes in unvested stock options for the nine months ended March 31, 2016 and 2015 consisted of the following:

	For the nine months ended March 31,			
	2016		2015	
	Options	Weighted Average Grant Date Fair Value	Options	Weighted Average Grant Date Fair Value
Unvested options, beginning of period	505,553	\$ 1.32	120,000	\$ 1.49
Granted	194,586	\$ 1.64	328,888	\$ 1.27
Vested	(257,223)	\$ 1.26	-	\$ -
Forfeited	(90,000)	\$ 1.81	-	\$ -
Unvested options, end of period	<u>352,916</u>	<u>\$ 1.41</u>	<u>448,888</u>	<u>\$ 1.33</u>

Exercise prices of stock options outstanding as of March 31, 2016 and June 30, 2015 consisted of the following:

Range of Exercise Prices	March 31, 2016		June 30, 2015	
	(unaudited)			
	Options Outstanding	Options Exercisable	Options Outstanding	Options Exercisable
\$1.62 to \$1.68	75,000	25,002	75,000	-
\$1.80	295,555	195,555	328,888	-
\$2.05	100,000	33,335	100,000	33,335
\$2.09	10,000	3,333	10,000	-
\$2.75	25,000	-	25,000	-
\$2.94	75,000	-	-	-
\$3.38	29,586	-	-	-
	<u>610,141</u>	<u>257,225</u>	<u>538,888</u>	<u>33,335</u>

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13. STOCK BASED COMPENSATION PLANS (CONTINUED)

(\$ in thousands, except per share price and number of options)	March 31, 2016		June 30, 2015	
	(unaudited)			
	Options Outstanding	Options Exercisable	Options Outstanding	Options Exercisable
Number of stock options	610,141	257,225	538,888	33,335
Weighted average exercise price	\$ 2.07	\$ 1.82	\$ 1.86	\$ 2.05
Aggregate intrinsic value	\$ 1,389	\$ 653	\$ 451	\$ 22
Weighted average contractual life	5.66	4.79	6.21	5.97
Share price	\$ 4.36	\$ 4.36	\$ 2.70	\$ 2.70

STOCK GRANTS

The Company's nonvested common shares as of March 31, 2016, and changes during the period then ended consisted of the following:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at June 30, 2015	18,604	\$ 1.88
Granted	131,558	3.04
Vested	(21,664)	2.70
Nonvested at September 30, 2015	128,498	2.97
Granted	-	-
Vested	(7,396)	3.38
Nonvested at December 31, 2015	121,102	\$ 2.94
Granted	-	-
Vested	-	-
Nonvested at March 31, 2016	121,102	\$ 2.94

14. PREFERRED STOCK

The authorized Preferred Stock may be issued from time to time in one or more series, each series with such rights, preferences or restrictions as determined by the Board of Directors. As of March 31, 2016 each share of Series A Preferred Stock is convertible into 0.194 of a share of Common Stock and each share of Series A Preferred Stock is entitled to 0.194 of a vote on all matters on which the holders of Common Stock are entitled to vote. Series A Preferred Stock provides for an annual cumulative dividend of \$1.50 per share, payable when, as and if declared by the Board of Directors, to the shareholders of record in equal parts on February 1 and August 1 of each year. Any and all accumulated and unpaid cash dividends on the Series A Preferred Stock must be declared and paid prior to the declaration and payment of any dividends on the Common Stock.

The Series A Preferred Stock may be called for redemption at the option of the Board of Directors for a price of \$11.00 per share plus payment of all accrued and unpaid dividends. No such redemption has occurred as of March 31, 2016. In the event of any liquidation as defined in the Company's Articles of Incorporation, the holders of shares of Series A Preferred Stock issued shall be entitled to receive \$10.00 for each outstanding share plus all cumulative unpaid dividends. If funds are insufficient for this distribution, the assets available will be distributed ratably among the preferred shareholders. The Series A Preferred Stock liquidation preference as of March 31, 2016 and June 30, 2015 is as follows:

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Notes to Consolidated Financial Statements
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14. PREFERRED STOCK (CONTINUED)

(\$ in thousands)	March 31, 2016 <u>(unaudited)</u>	June 30, 2015 <u></u>
Shares outstanding at \$10.00 per share	\$ 4,451	\$ 4,451
Cumulative unpaid dividends	<u>13,657</u>	<u>12,989</u>
	<u>\$ 18,108</u>	<u>\$ 17,440</u>

Cumulative unpaid dividends are convertible into common shares at \$1,000 per common share at the option of the shareholder. During the three and nine months ended March 31, 2016 and 2015, no shares of Preferred Stock nor cumulative preferred dividends were converted into shares of common stock.

15. RETIREMENT PLAN

The Company's 401(k) Plan (the "Retirement Plan") allows employees who have completed six months of service to make voluntary contributions up to a maximum of 100% of their annual compensation, as defined in the Retirement Plan and subject to IRS limitations. The Company may, in its discretion, make a matching contribution, a profit sharing contribution, a qualified non-elective contribution, and/or a safe harbor 401(k) contribution to the Retirement Plan. The Company must make an annual election at the beginning of the plan year as to whether it will make a safe harbor contribution to the plan. For the plan year ending June 30, 2016, the Company has elected to make safe harbor matching contributions of 100% of the participant's first 3% and 50% of the next 2% of compensation deferred into the Retirement Plan. The Company's safe harbor contributions for the three months ended March 31, 2016 and 2015 approximated \$51 thousand and \$61 thousand, respectively. The Company's safe harbor contributions for the nine months ended March 31, 2016 and 2015 approximated \$154 thousand and \$149 thousand, respectively.

16. RELATED PARTY TRANSACTIONS

There were no related party transactions during the three or nine-month periods ended March 31, 2016 and 2015.

17. COMMITMENTS AND CONTINGENCIES

SALE AND LEASEBACK TRANSACTIONS

In June 2014 and through the three months ended September 30, 2014, the Company and a third party finance company, entered into Sale Leaseback Agreements (the "Sale Leaseback Agreements" or a "Sale Leaseback Agreement") pursuant to which a third-party finance company purchased ePort equipment owned by the Company and used by the Company in its JumpStart Program.

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

USA Technologies, Inc.
Notes to Consolidated Financial Statements
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17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The following table summarizes the changes in deferred gain from the sale-leaseback transactions:

(\$ in thousands)	Three months ended March 31,	
	2016	2015
Beginning balance	\$ 1,330	\$ 2,191
Gain on sale of rental equipment	-	-
Recognition of deferred gain	(215)	(216)
Ending balance	1,115	1,975
Less current portion	860	860
Non-current portion of deferred gain	<u>\$ 255</u>	<u>\$ 1,115</u>

(\$ in thousands)	Nine months ended March 31,	
	2016	2015
Beginning balance	\$ 1,760	\$ 1,143
Gain on sale of rental equipment	-	1,452
Recognition of deferred gain	(645)	(619)
Ending balance	1,115	1,976
Less current portion	860	860
Non-current portion of deferred gain	<u>\$ 255</u>	<u>\$ 1,116</u>

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

On January 26, 2015, Universal Clearing Solutions, LLC ("Universal Clearing"), a former non-vending customer of the Company, filed a complaint against the Company in the United States District Court for the District of Arizona. On April 10, 2015, Universal Clearing filed an amended complaint, and on June 19, 2015, Universal Clearing filed a second amended complaint, which alleged causes of action against the Company for breach of contract, breach of fiduciary duty, and defamation. On July 24, 2015, the Company filed an answer to the defamation count of the complaint denying the allegations, and filed a motion to dismiss the remaining counts. On January 29, 2016, the Court granted the Company's motion, and dismissed the breach of contract and breach of fiduciary duty claims against the Company. The Company does not believe that the remaining defamation count of the complaint has merit or represents a material legal proceeding, and intends to vigorously defend against the claim.

On July 24, 2015, the Company filed a counterclaim against Universal Clearing seeking damages of approximately \$680 thousand which were incurred by the Company in connection with chargebacks relating to Universal Clearing's sub-merchants which had been boarded on the Company's service. The counterclaim alleges that Universal Clearing is responsible under the agreement for these chargebacks, and Universal Clearing misrepresented to the Company the business practices and other matters relating to these sub-merchants. On August 17, 2015, Universal Clearing filed an answer to the counterclaim denying that it was responsible for the chargebacks or had made any misrepresentations.

On August 7, 2015, the Company filed a third party complaint in the pending action against Steven Juliver, the manager of Universal Clearing, as well as against Universal Tranware, LLC, and Secureswype, LLC, entities affiliated with Universal Clearing. The third-party complaint sets forth, among other things, causes of action for fraud and breach of contract, and seeks to recover from these defendants the chargebacks relating to Universal Clearing's sub-merchants described above. On September 14, 2015, the third party defendants filed a motion to dismiss the third party complaint and on January 29, 2016, the court denied the motion to dismiss the fraud and breach of contract claims. The Company intends to vigorously pursue its claims for damages set forth in the counterclaim and third party complaint.

USA Technologies, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

On October 1, 2015, a purported class action complaint was filed in the United States District Court for the Eastern District of Pennsylvania by Steven P. Messner, individually and on behalf of all others similarly situated, against the Company and its executive officers, alleging violations under the Securities Exchange Act of 1934. The lawsuit was filed on behalf of a purported class of investors who purchased or otherwise acquired securities of the Company between September 29, 2014 through September 29, 2015. The complaint alleges that the defendants made materially false and misleading statements, relating to, among other things, the failure to identify a large number of uncollectible small balance accounts. The complaint seeks certification as a class action and unspecified damages including attorneys' fees and other costs. On December 15, 2015, the court appointed a lead plaintiff, and on January 18, 2016, the plaintiff filed an amended complaint that set forth the same causes of action and requested substantially the same relief as the original complaint. On February 1, 2016, the Company filed a motion to dismiss the amended complaint alleging, among other things, the amended complaint does not satisfy the applicable pleading standards under the Private Securities Litigation Reform Act. On April 11, 2016, the Court held oral argument on the Company's motion, and on April 14, 2016, the Court entered an order granting the Company's motion to dismiss the amended complaint without leave to amend. The plaintiff must appeal the Court's order prior to May 17, 2016.

18. ADJUSTMENTS

The consolidated financial statements included in this Form 10-Q reflect additional shares of common stock and preferred stock that had been issued and outstanding in prior periods but were not reflected as such in previous consolidated financial statements. The additional shares primarily consisted of unvested shares of common stock awarded to officers and directors pursuant to the Company's equity compensation plans. The Consolidated Statement of Shareholders' Equity has been adjusted to reflect these additional common and preferred shares as of June 30, 2015. The June 30, 2015 Consolidated Balance Sheet has been adjusted to reflect these additional shares; and the liquidation preference of preferred stock as of such date has been increased by \$85,371. The basic and diluted weighted average number of common shares outstanding for the three and nine month periods ended March 31, 2015 and March 31, 2016 in the Consolidated Statements of Operations has also been adjusted. The foregoing adjustments in basic and diluted weighted common shares outstanding did not affect the previously reported net loss per common share - basic or diluted for the three and nine month periods ended March 31, 2015.

19. SUBSEQUENT EVENTS

On April 29, 2016, the Company entered into a Third Amendment to Office Space Lease (the "Third Amendment") with its landlord which amended certain terms of its existing lease (the "Lease") for its Malvern, Pennsylvania executive offices consisting of approximately 17,249 square feet located on the first floor of the building (the "Current Premises"). The Third Amendment provides that the Company will relocate from the Current Premises to new offices located on the third floor of the building (the "New Offices") consisting of approximately 17,689 square feet. Substantially all of the improvements to the New Offices will be constructed by the landlord at the landlord's cost and expense. The landlord anticipates that the New Premises will be substantially completed on September 1, 2016, at which time the Company would relocate from the Current Premises to the New Premises (the "New Premises Commencement Date"). The Third Amendment provides that the term of the Lease is extended from the prior expiration date of April 30, 2016 until seven years following the New Premises Commencement Date. The Company's monthly base rent for the Premises will increase from approximately \$32,340 to approximately \$36,115 on the New Office Commencement Date, and will increase each year thereafter up to a maximum monthly base rent of approximately \$40,537. The Third Amendment also grants to the Company the option to extend the term of the Lease for an additional five year period with a minimum of one year advance notice prior to the expiration of the initial term, and provides certain rights of first offer on additional space located on the third floor of the building.

PART I

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

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, regarding, among other things, the anticipated financial and operating results of the Company. For this purpose, forward-looking statements are any statements contained herein that are not statements of historical fact and include, but are not limited to, those preceded by or that include the words, "estimate," "could," "should," "would," "likely," "may," "will," "plan," "intend," "believes," "expects," "anticipates," "projected," or similar expressions. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions. Important factors that could cause the Company's actual results to differ materially from those projected, include, for example:

- general economic, market or business conditions;
- the ability of the Company to raise funds in the future through sales of securities or debt financing in order to sustain its operations if an unexpected or unusual event would occur;
- the ability of the Company to compete with its competitors to obtain market share;
- whether the Company's current or future customers purchase, lease, rent or utilize ePort devices or our other products in the future at levels currently anticipated by our Company;
- whether the Company's customers continue to utilize the Company's transaction processing and related services, as our customer agreements are generally cancelable by the customer on thirty to sixty days' notice;
- the ability of the Company to satisfy its trade obligations included in accounts payable and accrued expenses;
- the ability of a sufficient number of our customers to utilize third party leasing companies under our QuickStart program in order to continue to significantly reduce net cash used in operating activities;
- the incurrence by us of any unanticipated or unusual non-operating expenses which would require us to divert our cash resources from achieving our business plan;
- the ability of the Company to predict or estimate its future quarterly or annual revenues and expenses given the developing and unpredictable market for its products;
- the ability of the Company to retain key customers from whom a significant portion of its revenues are derived;
- the ability of a key customer to reduce or delay purchasing products from the Company;
- the ability of the Company to obtain widespread commercial acceptance of its products and service offerings such as ePort QuickConnect, mobile payment and loyalty programs;
- whether any patents issued to the Company will provide the Company with any competitive advantages or adequate protection for its products, or would be challenged, invalidated or circumvented by others;
- the ability of our products and services to avoid unauthorized hacking or credit card fraud;
- whether our remediation of a significant deficiency that we identified in our internal controls over financial reporting, and which was reflected in our annual report on Form 10-K for the fiscal year ended June 30, 2015, would be effective;
- whether we experience additional material weaknesses in our internal controls over financial reporting in the future, and are not able to accurately or timely report our financial condition or results of operations;
- whether our suppliers would increase their prices, reduce their output or change their terms of sale; and
- the ability of the Company to operate without infringing the intellectual property rights of others.

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

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

OVERVIEW OF THE BUSINESS

USA Technologies, Inc. provides wireless networking, cashless transactions, asset monitoring, and other value-added services principally to the small ticket, unattended Point of Sale (“POS”) market. Our ePort® technology can be installed and/or embedded into everyday devices such as vending machines, a variety of kiosks, amusement, commercial laundry, kiosk and smartphones via our ePort Mobile™ solution. Our associated service, ePort Connect®, is a PCI-compliant, comprehensive service that includes simplified credit/debit card processing and support, consumer engagement services as well as telemetry, Internet of Things (“IoT”), and machine-to-machine (“M2M”) services, including the ability to remotely monitor, control and report on the results of distributed assets containing our electronic payment solutions.

The Company generates revenue in multiple ways. During fiscal year 2015, we derived approximately 75% of our revenues from recurring license and transaction fees related to our ePort Connect service and approximately 25% of our revenue from equipment sales. Connections to our service stem from the sale or lease of our POS electronic payment devices or certified payment software or the servicing of similar third-party installed POS terminals. Connections to the ePort Connect service are the most significant driver of the Company’s revenues, particularly the recurring revenues from license and transaction fees. Customers can obtain POS electronic payment devices from us in the following ways:

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

OVERVIEW OF THE COMPANY

Incorporated in 1992, USA Technologies, Inc. has been helping customers in self-serve retail, traditionally cash-based industries, seamlessly make the transition to cashless payment. Highlights of the Company are below:

- Over 84 employees with its headquarters in Malvern, Pennsylvania as of March 31, 2016
- Over 10,800 customers and 401,000 connections to our service
- Three direct sales teams at the national, regional, and local customer-level and a growing number of OEMs and national distribution partners
- 78 United States and foreign patents are in force
- The Company’s fiscal year ends June 30th
- The Company has traded on the NASDAQ under the symbol “USAT” since 2007

The Company has deferred tax assets of approximately \$27 million resulting from a series of operating loss carry forwards that may be available to offset future taxable income from federal income taxes over the next five or more years.

In January 2016, the Company purchased substantially all of the assets of VendScreen, Inc. (See Note 2). On the date of the acquisition, VendScreen had approximately 150 customers with approximately 6,000 connections. Of those 150 customers approximately 50% are new customers of USAT.

THE MARKET WE SERVE

We believe our growing customer base is indicative of a broadening adoption and acceptance of cashless payments in the industries we serve. We estimate the self-serve retail market in the United States generates over \$120 billion in annual cashless transaction revenues, representing 13 to 15 million potential connections. Included in the self-service retail market is the Company’s largest market segment, vending. This supports the Company’s position in the market and opportunities for growth.

Additionally, management estimates that the Company’s existing customer base controls over 2.0 million potential connections. The Company views the total installed base of machines managed by its customers that have yet to transition to cashless payment, as a key strategic opportunity for future growth in connections.

CRITICAL ACCOUNTING POLICIES

Our condensed consolidated financial statements are prepared applying certain critical accounting policies. The SEC defines “critical accounting policies” as those that require application of management’s most difficult, subjective, or complex judgments. Critical accounting policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variations and may significantly affect our reported results and financial position for the period or in future periods. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on our future financial condition and results of operations. Our financial statements are prepared in accordance with U.S. GAAP, and they conform to general practices in our industry. We apply critical accounting policies consistently from period to period and intend that any change in methodology occur in an appropriate manner. Accounting policies currently deemed critical are listed below:

Revenue Recognition

Revenue from the sale or QuickStart lease of equipment is recognized on the terms of freight-on-board shipping point. Activation fee revenue is recognized when the Company’s cashless payment device is initially activated for use on the Company network. Transaction processing revenue is recognized upon the usage of the Company’s cashless payment and control network. License fees for access to the Company’s devices and network services are recognized on a monthly basis. In all cases, revenue is only recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed and determinable, and collection of the resulting receivable is reasonably assured. The Company estimates an allowance for product returns at the date of sale and license and transaction fee refunds on a monthly basis.

ePort hardware is available to customers under the QuickStart program pursuant to which the customer would enter into a five-year non-cancelable lease with either the Company or a third-party leasing company for the devices. At the end of the lease period, the customer would have the option to purchase the device for a nominal fee.

Long Lived Assets

In accordance with ASC 360, “Impairment or Disposal of Long-Lived Assets”, the Company reviews its definite lived long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amount of an asset or group of assets exceeds its net realizable value, the asset will be written down to its fair value. In the period when the plan of sale criteria of ASC 360 are met, definite lived long-lived assets are reported as held for sale, depreciation and amortization cease, and the assets are reported at the lower of carrying value or fair value less costs to sell.

Goodwill and Intangible Assets

Goodwill represents the excess of cost over fair value of the net assets purchased in acquisitions. The Company accounts for goodwill in accordance with ASC 350, “Intangibles – Goodwill and Other”. Under ASC 350, goodwill is not amortized to earnings, but instead is subject to periodic testing for impairment. Testing for impairment is to be done at least annually and at other times if events or circumstances arise that indicate that impairment may have occurred. The Company has selected April 1 as its annual test date.

The Company trademarks with an indefinite economic life are not being amortized. The trademarks, not subject to amortization, are related to the EnergyMiser asset group and consist of four trademarks. The Company tests indefinite-lived intangible assets for impairment using a two-step process. The first step screens for potential impairment, while the second step measures the amount of impairment. The Company uses a relief from royalty analysis to complete the first step in this process. Testing for impairment is to be done at least annually and at other times if events or circumstances arise that indicate that impairment may have occurred. The Company has selected April 1 as its annual test date for its indefinite-lived intangible assets.

Patents, non-compete agreements, brand, developed technology, customer relationships and trademarks, with an estimated economic life, are carried at cost less accumulated amortization, which is calculated on a straight-line basis over their estimated economic life. The Company reviews intangibles, subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments, including from a shortfall in the customer transaction fund flow from which the Company would normally collect amounts due.

The allowance is determined through an analysis of various factors including the aging of accounts receivable, the strength of the relationship with the customer, the capacity of the customer transaction fund flow to satisfy the amount due from the customer, an assessment of collection costs and other factors. The allowance for uncollectible accounts receivable is management’s best estimate as of the respective reporting period. If the factors described above were to deteriorate, additional amounts may need to be added to the allowance.

HIGHLIGHTS FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2016 INCLUDE:

(\$ in thousands)	As of and for the three months ended			
	March 31,		\$ Change	% Change
	2016	2015		
Total revenues	\$ 20,361	\$ 15,357	\$ 5,004	32.6%
License and transaction revenue	\$ 14,727	\$ 11,059	\$ 3,668	33.2%
License and transaction gross profit	\$ 5,024	\$ 3,902	\$ 1,122	28.8%
License and transaction margin	34.1%	35.3%	-1%	-3.3%
Connections	401,000	302,000	99,000	32.8%
Customers	10,825	8,925	1,900	21.3%
Adjusted EBITDA	\$ 1,347	\$ 2,379	\$ (1,032)	-43.4%
Non-GAAP net income (loss)	\$ (87)	\$ 655	\$ (742)	-113.3%
Cash provided by operating activities	\$ 4,328	\$ 65	\$ 4,263	6558.5%

(\$ in thousands)	For the nine months ended			
	March 31,		\$ Change	% Change
	2016	2015		
Total revenues	\$ 55,464	\$ 40,431	\$ 15,033	37.2%
License and transaction revenue	\$ 41,326	\$ 31,695	\$ 9,631	30.4%
License and transaction gross profit	\$ 13,851	\$ 10,129	\$ 3,722	36.7%
License and transaction margin	33.5%	32.0%	2%	4.9%
Adjusted EBITDA	\$ 5,358	\$ 5,007	\$ 351	7.0%
Non-GAAP net income (loss)	\$ 660	\$ (79)	\$ 739	935.4%
Cash provided by (used in) operating activities	\$ 5,197	\$ (4,379)	\$ 9,576	218.7%

TRENDING QUARTERLY FINANCIAL DATA

The following tables show certain financial and non-financial data over a five-quarter period that management believes give readers insight into certain trends and relationships about the Company's financial performance.

Table 1: Five Quarters of Select Key Performance Indicators

(unaudited)	Three months ended				
	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Connections:					
Gross New Connections	38,000	24,000	20,000	34,000	24,000
% from Existing Customer Base	91%	89%	86%	89%	82%
Net New Connections	32,000	20,000	16,000	31,000	14,000
Total Connections	401,000	369,000	349,000	333,000	302,000
Customers:					
New Customers Added	200	350	675	675	475
Total Customers	10,825	10,625	10,275	9,600	8,925
Volumes:					
Total Number of Transactions (millions)	82.0	76.0	68.8	62.2	54.8
Transaction Volume (\$millions)	\$ 151.0	\$ 138.0	\$ 126.4	\$ 112.8	\$ 97.7
Financing Structure of Connections:					
JumpStart	7.4%	10.1%	10.2%	6.0%	11.3%
QuickStart & All Others *	92.6%	89.9%	89.8%	94.0%	88.7%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

*Includes credit sales with standard trade receivable terms

Highlights of USAT's connections for the quarter ended March 31, 2016 include:

- 32,000 net new connections to our ePort Connect service in the quarter, compared to 14,000 net connections added in the same quarter last year, an increase of 18,000, or 129%;
- 401,000 connections to the ePort Connect service compared to the same quarter last year of approximately 302,000 connections, an increase of 99,000 connections, or 33%;
- USAT has shifted from providing financing for the customer's equipment purchases through month-to-month agreements under the JumpStart rental program, to using outside leasing companies through the QuickStart program with sixty month terms. This shift to QuickStart provides for an upfront payment by the leasing companies for the equipment which significantly improves the Company's cash flow from operations. The Company also may hold QuickStart leases as finance receivables for customers that are not able to obtain third party leasing arrangements. The Company is actively working to expand its outside leasing partners. The goal of the program would be to have enough leasing partners so that the Company would not need to provide financing to its customers.

Table 2: Quarter Ended March 31, 2016 compared to Quarter Ended March 31, 2015

(\$ in thousands, except share and per share data)

(unaudited)	For the three months ended March 31,					
	2016	% of Sales	2015	% of Sales	Change	% Change
Revenues:						
License and transaction fees	\$ 14,727	72.3%	\$ 11,059	72.0%	\$ 3,668	33.2%
Equipment sales	5,634	27.7%	4,298	28.0%	1,336	31.1%
Total revenues	20,361	100.0%	15,357	100.0%	5,004	32.6%
Costs of sales/revenues:						
Cost of services	9,703	65.9%	7,157	64.7%	\$ 2,546	35.6%
Cost of equipment	4,986	88.5%	3,054	71.1%	1,932	63.3%
Total costs of sales/revenues	14,689	72.1%	10,211	66.5%	4,478	43.9%
Gross profit:						
License and transaction fees	5,024	34.1%	3,902	35.3%	1,122	28.8%
Equipment sales	648	11.5%	1,244	28.9%	(596)	-47.9%
Total gross profit	5,672	27.9%	5,146	33.5%	526	10.2%
Operating expenses:						
Selling, general and administrative	6,094	29.9%	4,281	27.9%	\$ 1,813	42.3%
Depreciation	173	0.8%	135	0.9%	38	28.1%
Total operating expenses	6,267	30.8%	4,416	28.8%	1,851	41.9%
Operating income (loss)	(595)	-2.9%	730	4.8%	(1,325)	-181.5%
Other income (expense):						
Interest income	67	0.3%	27	0.2%	40	148.1%
Interest expense	(180)	-0.9%	(85)	-0.6%	(95)	111.8%
Change in fair value of warrant liabilities	(4,805)	-23.6%	(1,101)	-7.2%	(3,704)	336.4%
Total other income (expense), net	(4,918)	-24.2%	(1,159)	-7.5%	(3,759)	324.3%
Loss before provision for income taxes	(5,513)	-27.1%	(429)	-2.8%	(5,084)	1185.1%
Benefit (provision) for income taxes	93		(138)		231	-167.4%
Net loss	(5,420)	-26.6%	(567)	-3.7%	(4,853)	855.9%
Cumulative preferred dividends	(334)	-1.6%	(334)	-2.2%	-	0.0%
Net loss applicable to common shares	\$ (5,754)	-28.3%	\$ (901)	-5.9%	\$ (4,853)	538.6%
Net loss per common share - basic and diluted	\$ (0.16)		\$ (0.03)		\$ (0.13)	535.1%
Basic and diluted weighted average number of common shares outstanding	36,161,613		35,747,979		413,635	1.2%
Adjusted EBITDA	\$ 1,347	6.6%	\$ 2,379	15.5%	\$ (1,032)	-43.4%
Non-GAAP net income (loss) applicable to common shares	\$ (421)	-2.1%	\$ 321	2.1%	\$ (742)	-231.2%
Total connections at period-end	401,000		302,000			
Net new connections in period	32,000		14,000			

Table 3: Nine Months Ended March 31, 2016 compared to the Nine Months Ended March 31, 2015

(\$ in thousands, except share and per share data)

(unaudited)	For the nine months ended March 31,					
	2016	% of Sales	2015	% of Sales	Change	% Change
Revenues:						
License and transaction fees	\$ 41,326	74.5%	\$ 31,695	78.4%	\$ 9,631	30.4%
Equipment sales	14,138	25.5%	8,736	21.6%	5,402	61.8%
Total revenues	55,464	100.0%	40,431	100.0%	15,033	37.2%
Costs of sales/revenues:						
Cost of services	27,475	66.5%	21,566	68.0%	\$ 5,909	27.4%
Cost of equipment	11,787	83.4%	6,850	78.4%	4,937	72.1%
Total costs of sales/revenues	39,262	70.8%	28,416	70.3%	10,846	38.2%
Gross profit:						
License and transaction fees	13,851	33.5%	10,129	32.0%	3,722	36.7%
Equipment sales	2,351	16.6%	1,886	21.6%	465	24.7%
Total gross profit	16,202	29.2%	12,015	29.7%	4,187	34.8%
Operating expenses:						
Selling, general and administrative	15,652	28.2%	11,444	28.3%	\$ 4,208	36.8%
Depreciation	439	0.8%	456	1.1%	(17)	-3.7%
Total operating expenses	16,091	29.0%	11,900	29.4%	4,191	35.2%
Operating income (loss)	111	0.2%	115	0.3%	(4)	-3.5%
Other income (expense):						
Interest income	138	0.2%	41	0.1%	97	236.6%
Interest expense	(403)	-0.7%	(209)	-0.5%	(194)	-92.8%
Change in fair value of warrant liabilities	(5,692)	-10.3%	(656)	-1.6%	(5,036)	-767.7%
Total other income (expense), net	(5,957)	-10.7%	(824)	-2.0%	(5,133)	-622.9%
Loss before provision for income taxes	(5,846)	-10.5%	(709)	-1.8%	(5,137)	-724.5%
Provision for income taxes	(88)		(180)		(92)	-51.1%
Net loss	(5,934)	-10.7%	(889)	-2.2%	(5,045)	-567.5%
Cumulative preferred dividends	(668)	-1.2%	(668)	-1.7%	-	0.0%
Net loss applicable to common shares	\$ (6,602)	-11.9%	\$ (1,557)	-3.9%	\$ (5,045)	-324.0%
Net loss per common share - basic and diluted	\$ (0.18)		\$ (0.04)		\$ (0.14)	-323.5%
Basic and diluted weighted average number of common shares outstanding	35,961,648		35,705,210		256,438	0.7%
Adjusted EBITDA	\$ 5,358	9.7%	\$ 5,007	12.4%	\$ 351	7.0%
Non-GAAP net loss applicable to common shares	\$ (8)	0.0%	\$ (747)	-1.8%	\$ 739	98.9%
Total connections at period-end	401,000		302,000			
Net new connections in period	68,000		36,000			

Revenue. The increase in net new connections of approximately 32,000 for the three-month period ended March 31, 2016 compared to approximately 14,000 in the same period last year represents an increase of 128%. The increase in net new connections of 68,000 for the nine-month period ended March 31, 2016 compared to 36,000 for the same period last year represents an increase of 89%. The Company's total connections have grown to 401,000 at March 31, 2016 compared to 302,000 at March 31, 2015, or a 32.8% increase year-over-year. The increase in total connections is driving the growth in license and transaction fees of 33.2% quarter-over-quarter and 30.4% over the prior comparable nine month period.

Gross Margin. License and transaction fees gross margin for the three-month period ended March 31, 2016 decreased from 35.3% to 34.1% compared to the three-month period ended March 31, 2015. The Company periodically offers reduced fees for customers who offer strategic and/or large market opportunities. During the nine month period, license and transaction fee gross margin increased from 32.0% to 33.5%. Management believes that this reflects the appropriate longer term margin for license and transaction fees. Equipment gross margin decreased from 28.9% for the three-month period ended March 31, 2015 to 11.5% for the three-month period ended March 31, 2016. The primary reason was that the prior year quarter included a \$747 thousand recovery as well as strategic offers as noted above. Equipment gross margins decreased from 21.6% for the nine-month period ended March 31, 2015 to 16.6% for the nine-month period ended March 31, 2016. The decrease reflects the prior recovery noted above as well as strategic offers as noted above.

Operating Expenses. Operating expenses increased \$1.8 million or 27.9% for the three-month period ended March 31, 2016 compared to the same period in 2015. The increases are primarily due to non-recurring charges of \$461 thousand incurred in connection with the acquisition and integration of the VendScreen business, \$105 thousand of professional fees incurred in connection with the class action litigation and other professional fees of \$444 thousand. Lesser increases were in salaries and benefits, and bad debt provision. Operating expenses increased \$4.2 million or 36.8% for the nine-month period ended March 31, 2016 compared to the same period in 2015. The increase are primarily due to salary and benefit increases of \$1.4 million, professional fee increases of \$1.1 million, and non-recurring charges of \$584 thousand incurred in connection with the acquisition and integration of the VendScreen business, and \$105 thousand of professional fees incurred during the March 31, 2016 quarter in connection with the class action litigation. Operating expenses as a percentage of sales increased for the three months ended March 31, 2016 to 30.8% compared to 28.8% for the three months ended March 31, 2015. Operating expenses as a percentage of sales decreased for the nine months ended March 31, 2016 to 29.0% compared to 29.4% for the nine months ended March 31, 2015. Going forward into the fourth quarter of fiscal 2016 and the first quarter of fiscal 2017, management expects decreased SG&A expenses as compared to those during the third quarter due to, among other things, realization of efficiencies and/or cost reductions.

Total Other Income (Expense). Includes interest expense, other income, and the change in the fair value of warrants. The primary driver for volatility in Other Income / (Expense) has been non-cash changes to the fair value of the warrant liabilities which are based on the Company's stock price. Using the Black-Scholes model, the Company adjusts the warrant liability for fair value through the income statement quarterly. For the three-month period ended March 31, 2016 the Company recorded expense of \$4.8 million for the change in the fair value of warrant liabilities compared to \$1.0 million for the three months ended March 31, 2015. For the nine-month period ended March 31, 2016 the Company recorded expense of \$5.7 million for the change in the fair value of warrant liabilities compared to \$656 thousand for the nine months ended March 31, 2015. The change in both periods can be primarily attributed to the increase in market price of the Company's common stock at the valuation dates which was \$4.36 at March 31, 2016 and \$2.75 at March 31, 2015.

Net Loss. Net loss is a function of the items described above. The increase in net loss is primarily attributed to the increase in the fair value of warrant liabilities, augmented by increased one-time charges related to the VendScreen acquisition.

Adjusted EBITDA. For the three months ended March 31, 2016 adjusted EBITDA decreased 43.4% from \$2.379 million at March 31, 2015 to \$1.347 million at March 31, 2016. The \$1.0 million decrease was primarily due to decreases in equipment gross profit versus same quarter last year, as noted above, as well as increases in professional service fees and bad debt expense. For the nine months ended March 31, 2016 adjusted EBITDA increased 7.0% from \$5.007 million at March 31, 2015 to \$5.358 million at March 31, 2016. The \$351 thousand increase is primarily due to an increase in gross margins on license and transaction fees in excess of the increases in operating expenses noted above.

Non-GAAP Net Income. For the three months ended March 31, 2016 non-GAAP net income applicable to common shares decreased 231.2% from \$321 thousand during the three months ended March 31, 2015 to a loss of \$421 thousand. The decrease was primarily due to decreases in gross margins during the current quarter as well as increases in professional service fees and bad debt expense. For the nine months ended March 31, 2016 non-GAAP net income applicable to common shares increased 98.9% from a loss of \$747 thousand during the nine months ended March 31, 2015 to loss of \$8 thousand. The increase is primarily due to the increased gross margin on license and transaction fees in excess of the increases in operating expenses noted above.

Weighted Average Shares Outstanding. The gradual increase in the basic weighted average number of common shares has been due to stock issued through the Company's stock based compensation programs.

Table 4: Reconciliation of Net Income (Loss) to Adjusted EBITDA:

(\$ in thousands)	For the three months ended		For the nine months ended	
	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Net loss	\$ (5,420)	\$ (567)	\$ (5,934)	\$ (889)
Less interest income	(67)	(27)	(138)	(41)
Plus interest expenses	180	85	403	210
(Less) plus income tax provision	(93)	138	88	180
Plus depreciation expense	1,190	1,433	3,863	4,350
Plus amortization expense	44	-	44	-
Plus stock-based compensation	142	216	651	541
EBITDA	<u>(4,024)</u>	<u>1,278</u>	<u>(1,023)</u>	<u>4,351</u>
Less change in fair value of warrant liabilities	4,805	1,101	5,692	656
Plus VendScreen non-recurring charges	461	-	584	-
Plus class action professional fees	105	-	105	-
Adjustments to EBITDA	<u>5,371</u>	<u>1,101</u>	<u>6,381</u>	<u>656</u>
Adjusted EBITDA	<u>\$ 1,347</u>	<u>\$ 2,379</u>	<u>\$ 5,358</u>	<u>\$ 5,007</u>

As used herein, Adjusted EBITDA represents net income (loss) excluding interest income, interest expense, income taxes, depreciation, amortization, non-recurring professional service fees recorded in SG&A during the quarter ended December 31, 2015 that were incurred in connection with the VendScreen, Inc. ("VendScreen") transaction, non-recurring costs and expenses recorded in SG&A during the quarter ended March 31, 2016 that were incurred in connection with the acquisition and integration of the VendScreen business, \$105 thousand of professional fees incurred during the March 31, 2016 quarter in connection with the class action litigation, change in fair value of warrant liabilities, and stock-based compensation expense. We have excluded the non-operating item, change in fair value of warrant liabilities, because it represents a non-cash gain or charge that is not related to the Company's operations. We have excluded the non-cash expense, stock-based compensation, as it does not reflect the cash-based operations of the Company. We have excluded the non-recurring costs and expenses incurred in connection with the VendScreen transaction in order to allow more accurate comparisons of the financial results to historical operations. We have excluded the professional fees incurred in connection with the class action litigation because we believe they represent a charge that is not related to the Company's operations. Adjusted EBITDA is a non-GAAP financial measure which is not required by or defined under GAAP (Generally Accepted Accounting Principles). The presentation of this financial measure is not intended to be considered in isolation or as a substitute for the financial measures prepared and presented in accordance with GAAP, including the net income or net loss of the Company. Management recognizes that non-GAAP financial measures have limitations in that they do not reflect all of the items associated with the Company's net income or net loss as determined in accordance with GAAP, and are not a substitute for or a measure of the Company's profitability or net earnings. Adjusted EBITDA is presented because we believe it is useful to investors as a measure of comparative operating performance. Additionally, the Company utilizes Adjusted EBITDA as a metric in its management and executive officer incentive compensation plans.

Table 5: Selling General & Administrative (SG&A) Expenses

(\$ in thousands) (unaudited)	Three months ended									
	March 31, 2016	% of SG&A	December 31, 2015	% of SG&A	September 30, 2015	% of SG&A	June 30, 2015	% of SG&A	March 31, 2015	% of SG&A
Salaries and benefit costs	\$ 2,760	45.4%	\$ 2,786	58.6%	\$ 2,685	56.0%	\$ 2,295	45.8%	\$ 2,534	59.2%
Marketing related expenses	362	5.9%	335	7.0%	333	6.9%	580	11.6%	184	4.3%
Professional services	1,152	18.9%	839	17.6%	782	16.3%	844	16.8%	708	16.5%
Bad debt expense	505	8.3%	239	5.0%	236	4.9%	497	9.9%	303	7.1%
Premises, equipment and insurance costs	460	7.5%	347	7.3%	399	8.3%	475	9.5%	372	8.7%
Research and development expenses	131	2.1%	37	0.8%	191	4.0%	154	3.1%	96	2.2%
VendScreen non-recurring charges	461	7.6%	106	2.2%	17	0.4%	-	0.0%	-	0.0%
Class action professional fees	105	1.7%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Other expenses	158	2.6%	73	1.5%	153	3.2%	164	3.3%	84	2.0%
Total SG&A expenses	\$ 6,094	100%	\$ 4,762	100%	\$ 4,796	100%	\$ 5,009	100%	\$ 4,281	100%

(\$ in thousands) (unaudited)	Nine months ended			
	March 31, 2016	% of SG&A	March 31, 2015	% of SG&A
Salaries and benefit costs	\$ 8,231	52.5%	\$ 6,870	60.0%
Marketing related expenses	1,030	6.6%	646	5.6%
Professional services	2,773	17.7%	1,666	14.6%
Bad debt expense	980	6.3%	603	5.3%
Premises, equipment and insurance costs	1,206	7.7%	1,144	10.0%
Research and development expenses	359	2.3%	261	2.3%
VendScreen non-recurring charges	584	3.7%	-	0.0%
Class action professional fees	105	0.7%	-	0.0%
Other expenses	384	2.5%	254	2.2%
Total SG&A expenses	\$ 15,652	100%	\$ 11,444	100%

Salaries and Benefit Costs. Includes employee compensation and benefits, directors' fees, incentives, and stock-based compensation. The increase in cost from the nine months ended March 31, 2015 to the nine months ended March 31, 2016 related to employee compensation and headcount increases.

Marketing Related. Marketing related costs were higher for the three and nine-month periods ended March 31, 2016 due to trade show expenses and marketing initiatives for sales support and sales deployment.

Professional Services. Professional service expenses have increased due to additional information technology, legal, public relations, auditing, SOX 404 and other consulting work. Excludes \$105 thousand of professional fees incurred during the March 31, 2016 quarter in connection with the class action litigation. The Company anticipates increased use of professional services to support its growing administrative, sales and service structure.

Bad Debt expense. Provision for bad debt reflects the most current assessment of reserves required.

Premises, Equipment and Insurance Costs. Includes facilities, supplies, printing and postage, sales & use taxes, and workers compensation. The increase for the three month period ended March 31, 2016 compared to the same period in 2015 was from liability insurance, and office supplies.

Research and Development. Includes product development costs that cannot be capitalized, including materials and contractors.

Non-recurring Charges. Included here are VendScreen acquisition and integration expenses (professional, legal and severance fees).

Other expenses. Includes bank fees, recruiting expenses, non-inventory supplies, and subscriptions.

Table 6: Non-GAAP Earnings per Share

(\$ in thousands)	Three months ended		Nine months ended	
	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Net loss	\$ (5,420)	\$ (567)	\$ (5,934)	\$ (889)
Non-GAAP adjustments:				
Non-cash portion of income tax provision	(38)	121	213	154
Fair value of warrant adjustment	4,805	1,101	5,692	656
VendScreen non-recurring charges	461	-	584	-
Class action professional fees	105	-	105	-
Non-GAAP net income (loss)	\$ (87)	\$ 655	\$ 660	\$ (79)
Net loss	\$ (5,420)	\$ (567)	\$ (5,934)	\$ (889)
Cumulative preferred dividends	(334)	(334)	(668)	(668)
Net loss applicable to common shares	\$ (5,754)	\$ (901)	\$ (6,602)	\$ (1,557)
Non-GAAP net income (loss)	\$ (87)	\$ 655	\$ 660	\$ (79)
Cumulative preferred dividends	(334)	(334)	(668)	(668)
Non-GAAP net income (loss) applicable to common shares	\$ (421)	\$ 321	\$ (8)	\$ (747)
Net loss per common share - basic and diluted	\$ (0.16)	\$ (0.03)	\$ (0.18)	\$ (0.04)
Non-GAAP net earnings (loss) per common share - basic and diluted	\$ (0.01)	\$ 0.01	\$ -	\$ (0.02)
Basic and diluted weighted average number of common shares outstanding	36,161,613	35,747,979	35,961,648	35,705,210

The gradual increase in the basic weighted average number of common shares has been due to stock issued through the Company's stock based compensation programs.

As used herein, non-GAAP net income (loss) represents GAAP net income (loss) excluding costs or benefits relating to any adjustment for fair value of warrant liabilities and non-cash portions of the Company's income tax benefit (provision), non-recurring professional service fees recorded in SG&A during the quarter ended December 31, 2015 that were incurred in connection with the VendScreen transaction, and non-recurring charges recorded in SG&A during the quarter ended March 2016 that were incurred primarily in connection with the acquisition and integration of the VendScreen business, and \$105 thousand of professional fees incurred during the March 31, 2016 quarter in connection with the class action litigation. Non-GAAP net earnings (loss) per common share - diluted is calculated by dividing non-GAAP net income (loss) applicable to common shares by the number of diluted weighted average shares outstanding. Non-GAAP net income (loss) is a non-GAAP financial measure which is not required by or defined under GAAP (Generally Accepted Accounting Principles). The presentation of this financial measure is not intended to be considered in isolation or as a substitute for the financial measures prepared and presented in accordance with GAAP, including the net income or net loss of the Company or net cash used in operating activities. Management recognizes that non-GAAP financial measures have limitations in that they do not reflect all of the items associated with the Company's net income or net loss as determined in accordance with GAAP, and are not a substitute for or a measure of the Company's profitability or net earnings. Management believes that non-GAAP net income (loss) and non-GAAP net earnings (loss) per common share - diluted are important measures of the Company's business. Management uses the aforementioned non-GAAP measures to monitor and evaluate ongoing operating results and trends and to gain an understanding of our comparative operating performance. We believe that these non-GAAP financial measures serve as useful metrics for our management and investors because they enable a better understanding of the long-term performance of our core business and facilitate comparisons of our operating results over multiple periods, and when taken together with the corresponding GAAP financial measures and our reconciliations, enhance investors' overall understanding of our current and future financial performance. Additionally, the Company utilizes non-GAAP net income as a metric in its management and executive officer incentive compensation plans.

Table 7: Balance Sheet as of March 31, 2016 Compared to June 30, 2015

(\$ in thousands) (unaudited)	<u>March 31, 2016</u>	<u>June 30, 2015</u>	<u>\$ Change</u>	<u>% Change</u>
Assets				
Current assets:				
Cash	\$ 14,901	\$ 11,374	\$ 3,527	31%
Accounts receivable, less allowance *	8,345	5,971	2,374	40%
Finance receivables	1,677	941	736	78%
Inventory	2,341	4,216	(1,875)	-44%
Deferred income taxes	1,276	1,258	18	1%
Prepaid expenses and other current assets	1,060	574	486	85%
Total current assets	<u>29,600</u>	<u>24,334</u>	<u>5,266</u>	<u>22%</u>
Finance receivables, less current portion	3,042	3,698	(656)	-18%
Property and equipment, net	10,584	12,869	(2,285)	-18%
Goodwill and intangibles	12,976	8,095	4,881	60%
Deferred income taxes	25,701	25,788	(87)	0%
Other assets	337	350	(13)	-4%
Total assets	<u>\$ 82,240</u>	<u>\$ 75,134</u>	<u>\$ 7,106</u>	<u>9%</u>
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable *	\$ 12,029	\$ 10,542	\$ 1,487	14%
Accrued expenses	3,339	2,108	1,231	58%
Line of credit	6,980	4,000	2,980	75%
Current obligations under long-term debt	625	478	147	31%
Income taxes payable	-	54	(54)	-100%
Warrant liabilities	5,964	-	5,964	0%
Deferred gain from sale-leaseback transactions	860	860	-	0%
Total current liabilities	<u>29,797</u>	<u>18,042</u>	<u>11,755</u>	<u>65%</u>
Long-term liabilities				
Long-term debt, less current portion	1,742	1,854	(112)	-6%
Accrued expenses, less current portion	19	49	(30)	-61%
Warrant liabilities, less current portion	-	978	(978)	-100%
Deferred gain from sale-leaseback transactions, less current portion	255	900	(645)	-72%
Total long-term liabilities	<u>2,016</u>	<u>3,781</u>	<u>(1,765)</u>	<u>-47%</u>
Total liabilities	<u>31,813</u>	<u>21,823</u>	<u>9,990</u>	<u>46%</u>
Shareholders' equity:				
Preferred stock, no par value	3,138	3,138	-	0%
Common stock, no par value	227,924	224,874	3,050	1%
Accumulated deficit	(180,635)	(174,701)	(5,934)	-3%
Total shareholders' equity	<u>50,427</u>	<u>53,311</u>	<u>(2,884)</u>	<u>-5%</u>
Total liabilities and shareholders' equity	<u>\$ 82,240</u>	<u>\$ 75,134</u>	<u>\$ 7,106</u>	<u>9%</u>
Total current assets	<u>\$ 29,600</u>	<u>\$ 24,334</u>	<u>\$ 5,266</u>	<u>22%</u>
Total current liabilities	<u>29,797</u>	<u>18,042</u>	<u>11,755</u>	<u>65%</u>
Net working capital	<u>\$ (197)</u>	<u>\$ 6,292</u>	<u>\$ (6,489)</u>	<u>-103%</u>

* Accounts receivable, net of allowance for doubtful accounts and accounts payable have increased by the following amounts due to reclassifications

\$ -	\$ 1,299
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Highlights from the Balance Sheet as of March 31, 2016 compared to June 30, 2015 include:

- Property and Equipment (“PP&E”) includes mostly JumpStart rental equipment and has declined \$2.3 million primarily pursuant to the Company’s strategy of using third-party leasing programs through QuickStart. Net PP&E is expected to continue to decline over time.
- Of the \$6.5 million decrease in net working capital from June 30, 2016, \$6.0 million was due to the increase in the fair value of warrant liabilities. The increase in cash and accounts receivable of \$5.9 million was approximately matched by an increase of \$2.7 million in accounts payable and accrued liabilities and a \$3.0 million increase in the line of credit.
- Accounts payable increased \$1.5 million to \$12.0 million as of March 31, 2016; nearly all of the increase was attributable to inventory and supply purchases during the quarter.
- Accounts receivable increased \$2.4 million to \$8.3 million as of March 31, 2016, primarily attributable to approximately \$2.3 million due from third-party financing companies for the Company’s QuickStart Program sold during the quarter.

LIQUIDITY AND CAPITAL RESOURCES

Highlights from the statement of cash flow include:

- The Company has experienced positive operating cash flow in the last five quarters and expects continued positive cash flow from operations.
- The net increase in cash over the nine months from June 30, 2015 to March 31, 2016 was \$3.5 million compared to a net decrease in cash of (\$0.6) million for the same period in the prior year. During the nine month period, the positive cash flow components were \$5.2 million from operations (not primarily working capital changes), \$3.1 million net increase in line of credit financing, and \$1.7 million from exercise of warrants. These positive cash flows were partially offset by the \$5.6 million outlay for the VendScreen acquisition.
- The net increase in cash over the three months from December 31, 2015 to March 31, 2016 is \$92 thousand compared to a net increase of \$1.7 million for the same period in prior year. This quarter, the primary driver of the \$4.3 million of positive operating cash flow was the increase in accounts payable of \$4.2 million which was primarily attributable to inventory and supplies purchases. Other cash flow factors were the exercise of warrants of \$1.7 million, offset by the \$5.6 million acquisition cost for VendScreen.

In September 2014, the Company reintroduced QuickStart, a program whereby our customers are able to purchase our ePort hardware via a five-year, non-cancellable lease. Under the QuickStart program, the Company provides the equipment to customers in a rent-to-own agreement and creates a long-term and current finance receivable for five-year leases. In the third and fourth quarters of fiscal 2015, the Company signed vendor agreements with two leasing companies, whereby our customers would enter into leases directly with the leasing companies. Under this scenario, the Company invoices the leasing company for the equipment leased by our customer, and records the full equipment sales amount to accounts receivable. Unlike finance receivables, where the cash from the equipment sale would be collected over a five-year period, the accounts receivable due from the leasing company is typically collected within 30 days. QuickStart through third-party leasing companies reduces cash flow needed for investing activities and improves the cash flow from operations. Company previously financed its customers’ acquisition of ePort equipment primarily through the JumpStart rental program. Under Jumpstart, the Company records an investing capital expenditure cash outflow for the equipment provided and fixed assets on the balance sheet, and then receives rental income from a month-to-month lease.

Since entering into vendor agreements with two third-party leasing companies, the majority of QuickStart sales consummated have been with customers entering into a lease directly with the leasing companies. Our customers have shifted from acquiring our products via JumpStart, which accounted for 60% of our gross connections in fiscal year 2014, to QuickStart and sales under normal trade receivable terms, which accounted for 88% of our gross connections in fiscal year 2015, and was approximately 90% of gross connections in the first nine months of fiscal year 2016. The Company is actively working to expand its outside leasing partners. The goal of the program would be to have enough leasing partners so that the Company would not need to provide financing to its customers. Accordingly, with continued success of the QuickStart third-party leasing program, the Company should continue to generate positive cash flow from operations during the remainder of the 2016 fiscal year.

Sources of Cash

The Company’s primary sources of cash include:

- Cash on hand of approximately \$14.9 million as of March 31, 2016;
- The Company generated cash flow from operations of \$5.2 million for the nine-month period ended March 31, 2016. The Company’s liquidity position is demonstrated by its net working capital, which is defined as current assets less current liabilities, and which was \$(197) thousand, \$5.9 million, \$9.9 million, \$7.5 million, and \$6.3 million over the last five quarters beginning with the quarter ended March 31, 2016.

- On March 29, 2016, a bank agreed to provide a \$12 million line of credit to the Company. Approximately \$7.1 million of this line was immediately used to pay off a term loan and line of credit from another bank. The line of credit bears interest at an annual rate equal to 2.25% above the prime rate as published from time to time by The Wall Street Journal, which prime rate is currently 3.5%. As of March 31, 2016, the balance outstanding under the line of credit was \$7.1 million.
- Approximately \$9.4 million from unexercised stock warrants exercisable at \$2.6058 per share that expire on September 18, 2016; and
- The Company believes it could sell a portion of its finance receivables at a discount to a third-party lender.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes to our market risk since June 30, 2015. For a discussion of our exposure to market risk, refer to Part II, Item 7A, “Quantitative and Qualitative Disclosures about Market Risk,” contained in our Annual Report on Form 10-K for the year ended June 30, 2015.

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 March 31, 2016. Based on this evaluation, they conclude that the disclosure controls and procedures were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms, and to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

There have been no changes during the quarter ended March 31, 2016 in the Company’s internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Part II - Other Information.

ITEM 1. Legal Proceedings

As previously reported, on October 1, 2015, a purported class action was filed in the United States District Court for the Eastern District of Pennsylvania against the Company and its executive officers alleging violations under the Securities Exchange Act of 1934. On December 15, 2015, the court appointed a lead plaintiff, and on January 18, 2016, the plaintiff filed an amended complaint that set forth the same causes of action and requested substantially the same relief as the original complaint. On February 1, 2016, the Company filed a motion to dismiss the amended complaint. On April 11, 2016, the Court held oral argument on the Company’s motion, and on April 14, 2016, the Court issued an order granting the Company’s motion to dismiss the amended complaint without leave to amend. The plaintiff must appeal the Court’s order prior to May 17, 2016.

Item 3. Defaults Upon Senior Securities

There were no defaults on any senior securities. On February 1, 2016, an additional \$334 thousand of dividends were accrued on our cumulative Series A Convertible Preferred Stock. The total accrued and unpaid dividends on our Series A Convertible Preferred Stock as of March 31, 2016 are \$13.7 million. The dividend accrual dates for our Preferred Stock are February 1 and August 1. The annual cumulative dividend on our Preferred Stock is \$1.50 per share.

Item 6. Exhibits

Exhibit Number	Description
2.1*	Asset Purchase Agreement dated January 15, 2016, by and between the Company and VendScreen, Inc.
10.1	Loan and Security Agreement dated as of March 29, 2016, by and between the Company and Heritage Bank of Commerce (Portions of this exhibit were redacted pursuant to a confidentiality treatment request)
10.2	Intellectual Property Security Agreement dated as of March 29, 2016, by and between the Company and Heritage Bank of Commerce
10.3	Fifteenth Amendment to Loan and Security Agreement dated January 15, 2016 by and between the Company and Avidbank Corporate Finance, a division of Avidbank (Portions of this exhibit were redacted pursuant to a confidentiality treatment request)
31.1	Certifications of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certifications of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1	Certification of the Chief Executive Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Schedules and exhibits to this Exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.

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: May 12, 2016

/s/ Stephen P. Herbert

Stephen P. Herbert,
Chief Executive Officer

Date: May 12, 2016

/s/ Leland P. Maxwell

Leland P. Maxwell
Interim Chief Financial Officer

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (this “Agreement”) is dated January 15, 2016, by and among USA TECHNOLOGIES, INC., a Pennsylvania corporation (“Buyer”), and VENDSCREEN, INC., a Delaware corporation (“Seller”) (collectively, the “Parties”).

RECITALS

Seller desires to sell and Buyer desires to purchase all of Seller’s right, title and interest in and to substantially all of the assets of Seller, and Buyer proposes to assume certain of the liabilities and obligations of Seller, all on the terms and subject to the conditions set forth in this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and mutual promises herein made, and in consideration of the representations, warranties and covenants herein contained, the Parties, intending to be legally bound, agree as follows:

1. DEFINITIONS

1.1 Definitions. For purposes of this Agreement, the following terms and variations thereof have the meanings specified or referred to in this Section 1.1:

“Accounts Receivable” means: (a) all trade accounts receivable, deferred receivables, and other rights to payment from customers of Seller and the full benefit of all security for such accounts or rights to payment, including all trade accounts receivable representing amounts receivable in respect of goods shipped or products sold or services rendered to customers of Seller; (b) all other accounts, loans, or notes receivable of Seller and the full benefit of all security for such accounts, loans, or notes; and (c) any claim, remedy or other right related to any of the foregoing.

“Affiliate” means with respect to any Person, any Person which directly or indirectly controls, is controlled by, or is under common control with such Person. A Person shall be deemed to control another Person if the controlling Person, directly or indirectly, possesses the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of voting securities, by contract, or otherwise.

“Assignment and Assumption of Lease” has the meaning set forth in Section 5.4.

“Benefit Plans” means all material “employee benefit plans,” as defined in Section 3(3) of ERISA (as defined at Section 3.10) and equity, employment and severance agreements and other similar arrangements maintained, contributed to, or required to be contributed to, by Seller or any ERISA Affiliate for the benefit of any employee of Seller or under which Seller has any material liability, including (a) any profit-sharing, deferred-compensation, bonus, stock-option, stock-purchase, pension, retainer, consulting, retirement, severance, welfare or incentive plan, agreement or arrangement, and (b) any employment agreement or executive compensation agreement.

“Cash” means cash and cash equivalents (including marketable securities, and short-term investments) of Seller as of the Closing Date.

“Closing Date” means 12:01 a.m., Eastern Time, on the date of this Agreement.

“Code” means the Internal Revenue Code of 1986, as amended.

“Confidential Information” means all information consisting of, relating to, or arising out of or in connection with (i) the Purchased Assets, including but not limited to, the Intellectual Property Assets, or (ii) the Assumed Liabilities, or (iii) any information disclosed by Buyer to Seller at any time prior to the date hereof under or pursuant to the Prior Confidentiality Agreements; and whether disclosed orally or disclosed or accessed in written, electronic or other form or media, and whether or not marked, designated or otherwise identified as “confidential”. Except as required by applicable federal, state or local law or regulation, the term “Confidential Information” as used in this Agreement shall not include information that: (a) at the time of disclosure is, or thereafter becomes, generally available to and known by the public other than as a result of, directly or indirectly, any violation of this Agreement by Seller; (b) at the time of disclosure is, or thereafter becomes, available to Seller on a non-confidential basis from a third-party source, provided that such third party is not and was not prohibited from disclosing such Confidential Information to Seller by a legal, fiduciary or contractual obligation to Seller or Buyer, or (c) consists of, relates to, or arises out of or in connection with any Excluded Assets or any Retained Liabilities.

“Contemplated Transactions” means all of the transactions contemplated by this Agreement.

“Encumbrance” means any charge, claim, condition, equitable, contractual or other interest in favor of any third party (including any license in favor of any third party, except, in the case of any third party right or software under which Seller is a licensee, to the extent such right or software is also non-exclusively licensed to third parties), lien (including any Tax lien), option, pledge, hypothecation, security interest, encroachment, right of first option, right of first refusal or similar restriction, including any restriction on use, voting (in the case of any security or equity interest), transfer, receipt of income, or exercise of any other attribute of ownership or other encumbrance, in each case, whether arising by contract or operation of law, and any contract creating or to create any of the foregoing.

“Environmental Laws” means all Legal Requirements, Orders or other binding measures of any Governmental Body relating to the environment or governing the handling, management, treatment, storage or disposal of waste, management of Hazardous Substances or protection of human health or the environment.

“ERISA Affiliate” means any corporation or trade or business (whether or not incorporated) which is treated with Seller as a single employer within the meaning of Section 414 of the Code.

“Escrow Agent” has the meaning set forth in Section 2.4(b).

“Escrow Agreement” means the Escrow Agreement to be dated as of the Closing Date, substantially in the form of Exhibit “A”.

“Escrow Deposit” has the meaning set forth in Section 2.4(b).

“Governmental Authorization” means any consent, license, registration, or permit issued, granted or given by any Governmental Body or pursuant to any Legal Requirement (including Environmental Permits).

“Governmental Body” means any federal, state, local, municipal, foreign, or other government (including any agency, branch, department, board, commission, court, tribunal, instrumentality or other entity exercising governmental or quasi-governmental powers).

“Hazardous Substances” means any hazardous, toxic or polluting substance, waste or material, including without limitation, asbestos, petroleum, petroleum products, or PCBs, all as defined under Environmental Laws.

“Intellectual Property” means the following: (a) all United States and foreign names, fictional business names, slogans, logos, trade names, trademarks, service marks, certification marks, domain names, design rights (including any word, symbol, product configuration, icon and logo) and trade dress (and applications and registrations for the same), whether registered or unregistered (collectively, “Marks”); (b) all United States and foreign patents and patent applications of any type or nature, whether utility, design or otherwise (including continuations, continuations-in-part, revisions, divisionals, extensions, provisionals, reexaminations, substitutions, reissue applications and renewals) or priority rights and applications therefor (collectively, “Patents”), (c) invention disclosures and other rights to inventions (including firmware and hardware technology), Intellectual Property or designs; (d) all copyrights, in both published works and unpublished works, whether registered or unregistered, mask works and all other rights corresponding thereto (and registrations and applications for the same) (collectively, “Copyrights”); (e) all know-how, trade secrets, techniques, ideas, concepts, discoveries, reports, processes, procedures, specifications, engineering orders, proposals, databases, inventions (whether or not patentable and whether or not reduced to practice), invention disclosures, process technology, research records, plans, drawings, blue prints and any other proprietary information, including technical or user manuals, however recorded, stored or embodied in each case to the extent proprietary to Seller (collectively, “Trade Secrets”); (f) computer software and all subsequent versions thereof, including programs, applications, modules, routines and sub-routines, program and system logic, architecture and/or design, screen and report displays and layouts, templates, user interfaces, menus, buttons and icons, data definition specifications, source code, object code, comments, algorithms, application programming interfaces, databases and other software-related specifications and documentation, maintenance agreements, design notes, technical or user manuals, files and data, and all media on which the foregoing are stored or recorded (“Software”); (g) all internet protocol addresses and networks, including domain names, internet e-mail addresses, world wide web (www) and http addresses, network names, social media user names, identifiers, accounts and profiles, network addresses and services (such as mail or website) whether or not used or currently in service and any registrations relating thereto and any website materials, content and design, and any authorization codes, login details or credentials or passwords to use or access the same (“Domain Names”); and (h) all rights to sue or recover and retain damages and costs and attorneys’ fees for past, present and future infringement of any of the foregoing; in each case, including any registrations of, applications to register, and renewals and extensions of, any of the foregoing with or by any Governmental Body in any jurisdiction.

“Inventories” means all inventories of Seller, wherever located, including all finished goods, unfinished goods and work-in-process, including any products or goods owned by Seller, and any raw materials, spare parts, components, and all other materials and supplies to be used or consumed by Seller in the production of finished goods.

“IRS” means the United States Internal Revenue Service.

“Knowledge” means, with respect to Seller, the actual knowledge, after reasonable internal inquiry, of David Grano.

“Lease” means that certain Office Lease dated July 1, 2013, between Historic U.S. National Bank Block, LLC, as landlord, and Seller, as tenant.

“Legal Requirement” means any federal, state, local, municipal, foreign, international, multinational, or other constitution, law, ordinance, principle of common law, code, rule, regulation, statute, treaty or executive order, decree or similar measure, and any case law or judicial ruling interpreting any of the foregoing.

“Liability” means with respect to any Person, any liability, indebtedness, or other obligation of such Person of any kind, character or description, whether known or unknown, direct or indirect, absolute or contingent, accrued or unaccrued, disputed or undisputed, liquidated or unliquidated, choate or inchoate, secured or unsecured, joint or several, due or to become due, vested or unvested, executory, determined, determinable, or otherwise, and whether or not the same is required to be accrued on the financial statements of such Person.

“Loss” means any loss, claim, demand, judgment, charge, Order, damage, penalty, fine, cost, expert witness fees and disbursements in connection with investigating, defending, or settling any action or threatened action, settlement payment, Liability, Tax, Encumbrance, expense, fee, court costs, and/or attorneys’ fees and expenses.

“Off-the-Shelf Software” means any third-party software that is generally commercially available and is licensed for use on desktop or laptop “PC-class” computers or related local area network servers.

“Open Source Software” means: (a) any software that contains, or is derived in any manner (in whole or in part) from, any software that is distributed as free software, open source software, or pursuant to similar licensing and distribution models; or (b) any software that requires as a condition of use, modification, and/or distribution of such software that such software or other code, routines or software incorporated into, derived from, or distributed with such software (i) be disclosed or distributed in source code form to any party, (ii) be licensed to any party (including for the purpose of making derivative works), or (iii) be redistributable at no or minimal charge.

“Order” means any writ, order, injunction, judgment, decree, ruling, assessment, or arbitration award of any Governmental Body or arbitrator.

“Permitted Encumbrances” means (a) Encumbrances for taxes or other governmental charges, assessments or levies which are not yet due and payable, (b) statutory landlord’s, mechanic’s, carrier’s, workmen’s, repairmen’s or other similar Encumbrances arising or incurred in the ordinary course of business and not yet due and payable and (c) licenses granted under customer contracts.

“Person” means an individual, partnership, corporation, business trust, limited liability company, limited liability partnership, joint stock company, trust, unincorporated association, joint venture, or other entity or a Governmental Body.

“Prior Confidentiality Agreements” means the Mutual Non-Disclosure Agreement between Seller and Buyer dated May 29, 2014, and the Nondisclosure Agreement between Seller and Buyer dated November 14, 2011.

“Proceeding” means any action, arbitration, audit, hearing, investigation, litigation or suit (whether civil, criminal, administrative, judicial or investigative, whether formal or informal, whether public or private) commenced, brought, conducted, or heard by or before any Governmental Body.

“Related Person” means, (a) with respect to a particular individual: (i) such individual’s spouse and any other person who is related to the individual or the individual’s spouse within the second degree (“Family”), and (ii) any Person that is directly or indirectly controlled by any one or more members of such individual’s Family; and (b) with respect to a specified Person other than an individual, any Person that directly or indirectly controls, is directly or indirectly controlled by, or is directly or indirectly under common control with, such specified Person and any related Person thereof. For purposes of this definition, “control” (including “controlling”, “controlled by”, and “under common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“Representative” means with respect to a particular Person, any director, officer, manager, employee, agent, consultant, advisor, accountant, financial advisor, legal counsel, or other representative of that Person.

“Tax” or “Taxes” means any federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated or other tax of any kind whatsoever, whether computed on a separate or consolidated, unitary or combined basis or in any other manner, including any interest, penalty, or addition thereto, whether disputed or not.

“Tax Return” means any return, declaration, report, claim for refund, or information return or statement required to be filed with a Governmental Body in connection with Taxes, including any schedule or attachment thereto, and including any amendment thereof.

“Transaction Documents” shall mean this Agreement, the Escrow Agreement, the Intellectual Property Assignment Agreement, the Assignment of Patents, the Assignment and Assumption of Lease, the Assignment of Marks, the Bill of Sale, the Assumption Agreement, the Transition Services Agreement, and the Domain Name Assignment Agreement (in each case, as defined herein).

1.2 Interpretation. When a reference is made in this Agreement to an Exhibit, Schedule, or Section, such reference shall be to an Exhibit, Schedule, or Section of this Agreement unless otherwise indicated. The headings and the table of contents contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words “include,” “includes,” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.” Whenever the context requires, words used in the singular shall be construed to mean or include the plural and vice versa, and pronouns of any gender shall be deemed to include and designate the masculine, feminine or neuter gender. The word “extent” in the phrase “to the extent” shall mean the degree to which a subject or other thing extends or the scope of such subject or other thing, and such phrase shall not simply mean “if.”

2. SALE AND TRANSFER OF ASSETS; CLOSING

2.1 Assets to be Sold. Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, Seller hereby sells, conveys, assigns, transfers, and delivers to Buyer, and Buyer hereby purchases and acquires from Seller, free and clear of any Encumbrances except Permitted Encumbrances and Assumed Liabilities, all of Seller's right, title, and interest in and to all of the assets, properties, rights (contractual or otherwise) and business of every kind and description, wherever located, personal or mixed, tangible or intangible, owned, held or used by Seller as the same shall exist on the Closing Date, other than the Excluded Assets (the "Purchased Assets"). The Purchased Assets shall be free and clear of any Encumbrances except Permitted Encumbrances and Assumed Liabilities. The Purchased Assets include:

(a) the machinery, equipment, tools, furniture, office equipment, computer hardware, supplies, materials, vehicles, and other items of tangible personal property (other than Inventories) owned or leased by Seller, together with any express or implied warranty by the manufacturers or sellers or lessors of any item or component part thereof and all maintenance records and other documents relating thereto as listed in Schedule 2.1(a)(i) (collectively, "Tangible Personal Property");

(b) all Inventories used or held by Seller, which are listed in Schedule 2.1(b);

(c) all rights of Seller under existing agreements and contracts to which Seller is a party, including the Lease, all purchase orders and customer contracts described on Schedule 2.1(c) (collectively, the "Assumed Contracts");

(d) all Intellectual Property that is owned by or leased, licensed or sublicensed to Seller, including the assets listed in Schedule 3.16(a) and Schedule 3.16(b) (collectively, the “Intellectual Property Assets”);

(e) all Governmental Authorizations and all pending applications or renewals thereof, including but not limited to, those identified on Schedule 2.1(e), to the extent transferable. Any Governmental Authorizations that are not transferable are so designated on such Schedule 2.1(e);

(f) all information, files, correspondence, records, data, plans, reports, contracts and recorded knowledge, including customer, supplier, vendor, distributor, price and mailing lists, marketing, sales and promotional materials, purchase and sale records, quality control records, research and development files, technical manuals, files and data, company manuals and all accounting or other books and records of the Seller in whatever media retained or stored, including computer programs and disks;

(g) all rights of Seller relating to deposits and prepaid expenses, claims for refunds and rights to offset in respect thereof (to the extent paid or arising solely pursuant to an Assumed Contract or Purchased Asset and arising after the Closing Date);

(h) Accounts Receivable (other than those due from Evergreen Vending in the amount of approximately \$340,000); and

(i) all other tangible and intangible assets, properties and rights of Seller of any kind or description, wherever located (including all goodwill related to or associated with the Purchased Assets), that are (i) carried on the books of the Seller or (ii) owned or licensed by the Seller.

Notwithstanding the foregoing, the transfer of the Purchased Assets pursuant to this Agreement shall not include the assumption of any Liability related to any of the Purchased Assets unless Buyer expressly assumes that Liability pursuant to Section 2.3(a).

2.2 Excluded Assets. Notwithstanding anything to the contrary contained in Section 2.1 or elsewhere in this Agreement, the following assets of Seller (collectively, the “Excluded Assets”) are not part of the sale and purchase contemplated hereunder, are excluded from the Purchased Assets and shall remain the property of Seller after the Closing:

- (a) all charter documents of Seller including minute books, stock ledger records and seals and other records having to do with the corporate organization of Seller;
- (b) all insurance policies and rights thereunder;
- (c) all Cash;
- (d) any contract or agreement to which Seller is a party other than the Assumed Contracts;
- (e) any books and records relating to Seller’s Tax matters and employees;
- (f) claims for and rights to receive refunds with respect to Taxes and Tax loss carryforwards, relating to the Seller’s business or the Purchased Assets with respect to taxable periods ending on or prior to the Closing Date;
- (g) the rights of Seller under or pursuant to this Agreement and the other agreements and documents executed and delivered in connection herewith; and
- (h) capital stock or other equity interests in Seller.

2.3 Liabilities.

(a) Assumed Liabilities. Subject to the terms and conditions in this Agreement, on and effective as of the Closing Date, Buyer shall assume, perform and discharge, as and when due any Liability of Seller arising or required to be performed or discharged after the Closing Date under the Assumed Contracts (including any customer claims under Seller’s warranty terms for devices under assumed customer contracts and fees under the assumed contract for OTI 2016 Annual Software Maintenance Agreement dated November 17, 2015), the Lease, and the Assignment and Assumption of Lease (collectively the “Assumed Liabilities”), and such Assumed Liabilities shall be the sole Liability assumed by Buyer.

(b) Retained Liabilities. The Retained Liabilities shall remain the sole responsibility of and shall be retained, paid, performed and discharged solely by Seller. "Retained Liabilities" shall mean all Liabilities of Seller including but not limited to the following (to the extent not an Assumed Liability):

(i) any Liability under any Assumed Contract that arises on or after the Closing Date but that arises out of or relates to any breach, claim or other matter that occurred, vested or became effective on or prior to the Closing Date;

(ii) any Liability for the unpaid Taxes of the Seller (including unpaid Taxes relating to or arising out of the Excluded Assets or the operation of Seller), or Taxes or similar amounts that the Seller was required to withhold and deposit, including deferred income Taxes, with respect to any period or any Taxes arising out of or relating to events which shall have occurred, or services performed, or products sold, or the operation of the business of Seller on or prior to the Closing Date or any unpaid Transfer Taxes;

(iii) except for Buyer's express obligations under the terms of the Assignment and Assumption of Lease, any Liability arising out of or relating to Seller's Leased Real Property and any Liability to the landlord;

(iv) except as provided in Section 5.3, any Liability (including, for the avoidance of doubt, Taxes, if any) for or under the Benefit Plans or relating to payroll, salary, bonuses, employee equity incentives or options, vacation, sick leave, workers' compensation, health care plans, or benefits or any other employee plans or benefits of any kind for, or other amounts or other obligations owed to, or otherwise relating to, Seller's employees or former employees, current or former consultants or independent contractors in their capacities as current or former employees, independent contractors or consultants of Seller, as the case may be, or any grievance, complaint or claim by any current or former employee, consultant or independent contractor of Seller or obligation to indemnify, reimburse or advance amounts to any current or former employee, consultant or independent contractor or agent of Seller, in each case, arising before or on the Closing Date;

(v) any Liability arising out of any Proceeding (i) to which Seller or any Affiliate of Seller is a party, (ii) relating to or arising in connection with any Excluded Asset or Retained Liability, or (iii) pending as of the Closing Date, or commenced after the Closing Date and arising out of or relating to any occurrence or event happening on or prior to the Closing Date;

(vi) any Liability of Seller under this Agreement or any other document executed in connection with the Contemplated Transactions;

(vii) except for any and all Liabilities related to product or service warranties, any Liability arising out of or relating to products, goods or services manufactured, sold, delivered, distributed, licensed, sublicensed or rendered (as the case may be) by Seller at any time prior to the Closing Date;

(viii) any Liability arising out of any of the Excluded Assets; and

(ix) any Liability arising out of or relating to failure to pay any accounts payable of Seller.

2.4 Purchase Price.

(a) The purchase price for the Purchased Assets (the "Purchase Price") shall be an amount equal to Five Million Six Hundred Twenty-Five Thousand Dollars (\$5,625,000) which will be payable to Seller in immediately available funds at the Closing (the "Closing Payment"); provided, however, that Two Hundred Fifty Thousand Dollars (\$250,000) shall be paid by Buyer to the Escrow Agent in accordance with subsection (b) below.

(b) At the Closing, Buyer will deposit with Lurio & Associates, P.C., as temporary escrow agent (together with its successors, the “Escrow Agent”) the sum of Two Hundred Fifty Thousand Dollars (\$250,000) (the “Escrow Deposit”) pursuant to the terms of the Escrow Agreement. The Escrow Deposit (together with any interest earned thereon) shall be held for a period of twelve (12) months following the Closing Date for purposes of paying any indemnification claims made by any Buyer Indemnified Parties under Section 6.4 hereof on or prior to the expiration of such twelve (12) month period.

Seller and Buyer covenant and agree to use commercially reasonable efforts to transfer the Escrow Deposit within twenty (20) business days following the Closing Date to an escrow account at a national banking institution mutually selected by the Seller and Buyer in good faith to act as successor Escrow Agent pursuant to an escrow agreement to be entered into by and between Seller, Buyer and the successor Escrow Agent, in form reasonably satisfactory to Buyer and Seller. The Seller and Buyer shall equally split the fees and costs payable in connection with such escrow agreement and successor Escrow Agent.

2.5 Allocation. Within forty-five (45) days after the date hereof, and subject to the reasonable approval of Seller, Buyer shall prepare an allocation of the Purchase Price and Assumed Liabilities among the Purchased Assets. The allocation referred to in the preceding sentence shall be made in accordance with Section 1060 of the Code and the Treasury Regulations thereunder and the fair market values of the Purchased Assets. Buyer and Seller agree to cooperate with each other, and to furnish each other with such information as is reasonably requested by the other party, for purposes of such allocation. The Parties shall make consistent use of the allocation for all Tax purposes and in all filings, declarations and reports with the IRS in respect thereof, including the reports required to be filed under Section 1060 of the Code and the filing of IRS Form 8594. In any Proceeding related to the determination of any Tax, neither Buyer nor Seller shall contend or represent that such allocation is not a correct allocation.

2.6 Transfer Taxes. All excise, sales, use, value added, registration, stamp, recording, documentary, conveyancing, franchise, property, transfer, gains and similar Taxes, levies, charges and fees (collectively, "Transfer Taxes") incurred in connection with the Closing of the transactions contemplated by this Agreement shall be borne by the party upon whom they are imposed.

2.7 Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall take place simultaneously with the execution of this Agreement on the date of this Agreement (the "Closing Date") at the offices of Lurio & Associates, P.C., Suite 3120, 2005 Market Street, Philadelphia, PA 19103. The consummation of the transactions contemplated by this Agreement shall be deemed to occur at 12:01 a.m. on the Closing Date.

2.8 Closing Obligations. In addition to any other documents to be delivered under other provisions of this Agreement, at the Closing:

(a) Seller shall deliver to Buyer:

(i) a bill of sale in a form attached hereto as Exhibit "F" (the "Bill of Sale"), executed by Seller;

(ii) the Escrow Agreement, executed by Seller and Escrow Agent;

(iii) the (1) Intellectual Property Assignment Agreement, (2) Assignment of Patents, and (3) Assignment of Marks (each as defined below), in each case, executed by Seller;

(iv) the Assignment and Assumption of Lease executed by Seller;

(v) an assignment of the Domain Names in a form attached hereto as Exhibit "I" (the "Domain Name Assignment Agreement"), executed by Seller;

(vi) such other assignments, certificates of title, documents and other instruments of transfer and conveyance as may reasonably be requested by Buyer, each in form and substance satisfactory to Buyer and its legal counsel and executed by Seller;

(vii) executed written consents or approvals of, or notice to, any third parties to or regarding the assignment of the Assumed Contracts or the execution, delivery and performance of the Transaction Documents as specified on Schedule 3.2(c);

(viii) the Transition Services Agreement in the form attached hereto as Exhibit "J" (the "Transition Services Agreement") executed by Seller;

(ix) a certificate of an authorized officer of Seller certifying, as complete and accurate as of the Closing Date, attached copies of the certificate of incorporation and bylaws of Seller, each as amended, including a certificate of existence issued by the Secretary of State of the State of Delaware, certifying and attaching all requisite resolutions of Seller's board of directors and stockholders approving the execution and delivery of this Agreement and the consummation of the Contemplated Transactions, and certifying to the incumbency and signatures of the officers of Seller executing this Agreement and any other document relating to the Contemplated Transactions; and

(x) such other documents as may be reasonably required by Buyer in connection with the consummation of the Contemplated Transactions.

(b) Buyer shall deliver to Seller:

(i) the Closing Payment (less the amount described in Section 2.4(a)), to an account identified in writing by Seller prior to the Closing;

(ii) the Escrow Agreement, executed by Buyer;

(iii) the (1) Intellectual Property Assignment Agreement, (2) Assignment of Patents, and (3) Assignment of Marks (each as defined below) executed by Buyer;

(iv) the Transition Services Agreement executed by Buyer;

- (v) an Assumption Agreement in the form attached as Exhibit “H”, executed by Buyer; and
- (vi) the Assignment and Assumption of Lease executed by Buyer.

3. REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Buyer that the statements in this Section 3 are true and correct as of the date hereof, except as set forth in the schedules accompanying this Agreement (the “Disclosure Schedules”). The Disclosure Schedules have been arranged for purposes of convenience in separately titled sections corresponding to the sections of this Section 3. Any disclosure in one section of the Disclosure Schedules may apply to and qualify disclosures made in one or more other sections to the extent that it is reasonably apparent that such disclosures apply to or qualify other sections, notwithstanding the omission of an appropriate cross reference to such other section.

3.1 Organization and Good Standing. Seller is a corporation duly incorporated, validly existing and in good standing under the laws of the state of Delaware, with full power and authority to conduct its business as it is now being conducted, to own or use the properties and assets that it purports to own or use, and to perform all of its obligations under the Transaction Documents. Seller is duly qualified to do business as a foreign company and is in good standing under the laws of each state or other jurisdiction in which either the ownership or use of the properties owned or used by it, or the nature of the activities conducted by it, requires such qualification. Seller neither has any subsidiaries nor owns any equity interests or other securities of any other Person. The only names used by Seller for the conduct of the Business at any time since the date of Seller’s incorporation, including any trade or doing-business-as name, is VendScreen, Inc.

3.2 Enforceability; Authority; No Conflict.

(a) This Agreement constitutes the legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to or affecting the rights of creditors generally and by equitable principles (whether applied in a proceeding at law or in equity). Upon the execution and delivery by Seller of each Transaction Document to be executed or delivered by Seller at the Closing, such Transaction Document shall constitute the legal, valid, and binding obligation of Seller, enforceable against Seller in accordance with its terms; provided, that the exceptions pertaining to enforceability set forth in the immediately preceding sentence shall apply equally to this sentence. This Agreement, each applicable Transaction Document and the Contemplated Transactions have been duly approved and authorized by all requisite corporate action, including, without limiting the generality of the foregoing, all stockholder and board of directors approvals required pursuant to the Seller's certificate of incorporation, bylaws, as amended, and any Legal Requirements, and no other corporate or other proceedings or actions on the part of Seller, its board of directors or stockholders are necessary therefor.

(b) Neither the execution, delivery and performance of this Agreement or any other Transaction Document nor the consummation or performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time): (i) breach or conflict with any provision of any of the certificate of incorporation or bylaws of Seller, as amended as of the Closing Date; (ii) give any Governmental Body or other Person (including any holder of any capital stock, other equity interest or debt of Seller) the right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under, any Legal Requirement or any Order to which Seller or any of the Purchased Assets, may be subject; (iii) contravene, conflict with or result in a violation or breach of any of the terms or requirements of, or give any Governmental Body the right to revoke, withdraw, suspend, cancel, terminate or modify, any Governmental Authorization that is held by Seller or that otherwise relates, directly or indirectly, to the Purchased Assets or to the business of Seller; or (iv) breach any provision of, or give any Person the right to declare a default or exercise any remedy or any right of first refusal or first offer under, or to accelerate the maturity or performance of, or payment under, or to cancel, terminate or modify, or otherwise result in or permit any change in the rights or obligations of any Person other than Seller under, any contract, lease, license or sublicense, franchise or other instrument or agreement to which Seller is a party or by which Seller or any of its assets are bound, including any Assumed Contract.

(c) Except as set forth on Schedule 3.2(c), no notice to, or consent, approval or waiver from, any Person or filing or registration with any Governmental Body, is required in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Contemplated Transactions, including the sale, transfer and assignment of the Purchased Assets. There are no applicable bulk sales laws or similar Legal Requirements which would require that notice of the Contemplated Transactions be given to creditors of Seller or any Governmental Body, or any other notice be given or consent or approval be obtained or similar action be taken.

3.3 Sufficiency of Assets; Title.

(a) The Purchased Assets constitute all of the assets, tangible and intangible, of any nature whatsoever, owned or licensed by Seller and necessary and sufficient to operate Seller's business in the manner presently operated, except for the Excluded Assets.

(b) Except as provided in Schedule 3.3(b)(i), Seller owns good, valid and transferable title to, or valid, subsisting and transferable leasehold or license interests in Purchased Assets (which leased or licensed Purchased Assets are set forth on Schedule 3.3(b)(ii)), free and clear of any Encumbrances except Permitted Encumbrances and, except as set forth in such Schedule 3.3(b)(i), none of the Purchased Assets is owned by any Person other than Seller (including jointly with any other Person, including Affiliates of Seller); provided that the representations in this Section 3.3(b) do not apply to Intellectual Property, which is covered exclusively in Section 3.16.

(c) Except as set forth on Schedule 3.3(c), each item of Tangible Personal Property is in good repair and good operating condition, ordinary wear and tear excepted, is fit for its intended use and suitable for immediate use in the business of Seller or otherwise in the ordinary course of business and is free from latent and patent defects in design, workmanship and materials. No item of Tangible Personal Property is in need of repair or replacement other than as part of routine maintenance in the ordinary course of business. Upon the sale, conveyance, transfer, assignment and delivery of the Tangible Personal Property in accordance with this Agreement, Buyer will acquire good and valid title to the Tangible Personal Property owned by Seller, free and clear of any Encumbrances except Permitted Encumbrances. Notwithstanding anything in Section 3.3(c), the representations in this Section 3.3(c) do not apply to Inventory, which is covered exclusively in Section 3.5.

3.4 Leased Real Property. Schedule 3.4 sets forth a list of all real property in which Seller has a leasehold interest (the “Leased Real Property”, with the leases or other Contracts evidencing such interests, and any amendments or modifications thereto or restatements thereof, being referred to as the “Real Property Leases”). Seller has provided Buyer with complete and accurate copies of all Real Property Leases. No party to any Real Property Lease has given Seller notice (whether written or oral) of, or made a claim with respect to, any breach or default thereunder. None of the Leased Real Property is subject to any assignment, sublease or grant to any Person of any license or right to the use, occupancy or enjoyment of the property or any portion thereof. Seller has paid on or prior to the date hereof (after giving effect to the Closing) to the applicable landlord all rentals and other amounts due and payable under the Real Property Leases as of the Closing. Seller has paid on or prior to the date hereof (after giving effect to the Closing) all required impositions under the Real Property Leases (e.g., Taxes, insurance, operating expense) up through and including the day of Closing to the extent the same were due and payable by or as of the Closing Date.

3.5 Inventories. To Seller's Knowledge, Schedule 2.1(b) sets forth a true, correct and complete list of all Inventories used in or held for the business of Seller. All items included in the Inventories consist of a quality and quantity usable and, with respect to finished goods, saleable, in the ordinary course of business of Seller, and free from latent and patent defects in design, workmanship and materials or otherwise and, with respect to finished goods, fit for their intended purpose and in material conformity with their applicable specifications and technical documentation, in each case subject to the reserve amount provided in the balance sheet of Seller as of September 30, 2015. The quantities of each item of Inventories (whether raw materials, work-in-process, component parts, or finished goods) are not excessive but are reasonable in the present circumstances of Seller.

3.6 Absence of Undisclosed Liabilities. Except as and to the extent reflected or reserved against on the balance sheet of Seller as of September 30, 2015 (such date, the "Balance Sheet Date"), Seller had no debts, liabilities or obligations (whether absolute, accrued, contingent or otherwise) of any nature whatsoever, whether or not known or unknown, due or payable relating to the Purchased Assets, which are required to be set forth on the balance sheet of Seller or in the notes thereto in accordance with GAAP applied on a basis consistent with Seller's past practices, except for debts, liabilities and obligations incurred since the Balance Sheet Date in the ordinary course of business or in connection with the Transaction Documents.

3.7 Taxes. Seller has filed or caused to be filed on a timely basis all Seller's Tax Returns and all reports with respect to Seller's Taxes that are or were required to be filed or provided by the Closing Date pursuant to applicable Legal Requirements. All Tax Returns and reports filed or provided by Seller are true, correct, and complete in all material respects. Seller has paid all Seller's Taxes and assessments by Governmental Bodies that were due before the Closing Date. All Taxes that Seller is or was required by Legal Requirements to withhold, deduct or collect have been duly withheld, deducted and collected and, to the extent required, have been paid to the proper Governmental Body or other Person. Seller has not been notified by any jurisdiction in which it does not file Tax Returns that it may be obligated to file Tax Returns in the jurisdiction.

3.8 No Material Adverse Change. Except as set forth on Schedule 3.8, there has not been any material adverse change in the business, operations, prospects, assets, results of operations, or condition (financial or other) of Seller (including the Purchased Assets), and no event has occurred or circumstance exists that may result in such a material adverse change, nor has any Encumbrance (other than Permitted Encumbrances) attached or arisen over or with respect to any of the Purchased Assets, in each case, since the Balance Sheet Date. Without limiting the generality of the foregoing, except as set forth on Schedule 3.8, since the Balance Sheet Date, Seller has not taken or caused to be taken any of the following actions, nor has any of the following occurred (as the case may be), in each case outside the ordinary course of business:

- (a) sold, assigned or transferred any portion of the Purchased Assets, other than in the ordinary course of business;
- (b) (i) amended or modified, (ii) entered into, agreed to or acquiesced to any waiver of or (iii) cancelled, terminated or received notice (whether written or oral) of future cancellation or termination of any Assumed Contract;
- (c) failed to make any payments on, under or relating to any Assumed Contracts, Taxes or Governmental Authorizations on a current basis as and when due;
- (d) suffered or incurred any material damage, destruction or Loss relating to the business of Seller or the Purchased Assets, whether or not covered by insurance, or received or incurred any material claims or Liabilities relating to the business of Seller or the Purchased Assets, whether or not covered by insurance;
- (e) incurred any indebtedness or non-current liability, or mortgaged, sold, assigned, transferred, hypothecated, pledged or otherwise placed or suffered or acquiesced in the imposition of an Encumbrance other than a Permitted Encumbrance on any Purchased Asset;

- (f) transferred, granted, licensed, sublicensed, assigned, terminated or otherwise disposed of, modified, changed or cancelled, or entered into, agreed to or acquiesced to any waiver of, any material rights or obligations with respect to any of the Intellectual Property Assets;
- (g) no notice of resignation from or termination of employment with Seller of any employees; or
- (h) entered into any agreement or commitment to take any of the actions set forth in paragraphs (a) through (g) of this Section

3.8.

3.9 Labor and Employment Matters.

(a) Schedule 3.9(a)(i) sets forth a true, correct, and complete list of each person employed by Seller including such employee's Fair Labor Standards Act status as exempt or non-exempt, name, job title, work location, estimated current total compensation on a gross annualized basis and hourly pay rate (if applicable), total compensation paid to date in 2015 and total compensation paid in 2014. Schedule 3.9(a)(ii) sets forth any individuals who are (A) "leased employees" within the meaning of Section 414(n) of the Code or (B) "independent contractors" within the meaning of the Code and the rules and regulations promulgated thereunder (together with all employees of Seller, collectively, "Employees") and with respect to each such Employee the following information: name, status as a leased employee or independent contractor, work location, compensation paid to date in 2015, and total compensation paid in 2014.

(b) Neither the Seller nor any Affiliate of Seller is a party to, or bound by, any collective bargaining agreement or other agreement or understanding with any labor or trade union or similar labor organization. Neither the Seller nor any Affiliate of Seller has experienced, any union organizing efforts, strike, slowdown, work stoppage, lockout, material labor grievances, charges or complaints relating to unfair labor practices or other labor dispute.

(c) Without limiting the generality of Sections 3.11 and 3.12, there is no pending or current Proceeding, nor, to Seller's Knowledge, is any Proceeding threatened, by any Governmental Body or any current or former employee, consultant or independent contractor of Seller or any Affiliate of Seller relating to or arising out of any violation or alleged violation of any Legal Requirement. Seller is and has at all times been in compliance with all Legal Requirements regarding employment, employment practices, terms and conditions of employment and wages and hours, in each case, with respect to any current, former or retired employees, consultants or independent contractors of Seller.

3.10 **Employee Benefits.** Schedule 3.10 lists all Benefit Plans of Seller that are currently in effect. Seller has performed, in all material respects, all of its obligations under all Benefit Plans, including all obligations under the provisions of ERISA, the Code and other Laws applicable to the Benefit Plans. Neither Seller nor any ERISA Affiliate has ever contributed to, or been required to contribute to any "multiemployer plan" (within the meaning of Section 3(37) of Employee Retirement Income Security Act of 1974, as amended ("ERISA")) and neither Seller nor any ERISA Affiliate has any liability (contingent or otherwise) relating to the withdrawal or partial withdrawal from a multiemployer plan. None of the Benefit Plans is or at any time has been subject to Title IV of ERISA or Code Section 412. The Benefit Plans which are "employee pension benefit plans" within the meaning of Section 3(2) of ERISA and which are intended to meet the qualification requirements of Section 401(a) of the Code (each, a "Pension Plan") have received favorable determination letters from the Internal Revenue Service with respect to their qualified status or are in the form of prototype or volume submitter plans that are the subject of favorable opinion or advisory letters from the Internal Revenue Service, and, to Seller's Knowledge, nothing has occurred that would reasonably be expected to adversely affect the qualification of such Benefit Plan. To Seller's Knowledge, no nonexempt "prohibited transaction" (within the meaning of Section 4975 of the Code or Sections 406 and 408 of ERISA) has occurred with respect to any of such Benefit Plans, which would reasonably be expected to result in a material liability to Seller. No Benefit Plan provides death or medical benefits beyond termination of service or retirement other than coverage mandated by law, benefits through the end of the month of termination of service or retirement and death benefits attributable to deaths occurring at or prior to termination of service or retirement.

3.11 Compliance with Legal Requirements; Governmental Authorizations. Seller is, and at all times, has been, in material compliance with each Legal Requirement that is or was applicable to it or to the conduct or operation of its business or the ownership or use of any of the Purchased Assets. No event has occurred or circumstance exists that (with or without notice or lapse of time) (A) may constitute or result in a violation by Seller of, or a failure on the part of Seller to comply with, any Legal Requirement or any Governmental Authorization that is held by Seller or that otherwise relates, directly or indirectly, to the business of Seller or the Purchased Assets, or (B) may give rise to any obligation on the part of Seller to undertake, or to bear all or any portion of the cost of, any remedial action of any nature. Each Governmental Authorization that is held by Seller or that otherwise relates to the business of Seller or the Purchased Assets is valid and in full force and effect, and Seller has been in compliance with any such Governmental Authorization.

3.12 Legal Proceedings; Orders. There is no pending or threatened Proceeding (i) by or against Seller or that otherwise relates to or may affect the business of, or any of the Purchased Assets, or (ii) that challenges, or that may have the effect of preventing, delaying, making illegal or otherwise interfering with, any of the Contemplated Transactions. No event has occurred or circumstance exists that could reasonably be expected to give rise to or serve as a basis for the commencement of any such Proceeding. There is no Order to which Seller, its business or any of the Purchased Assets is a party or is subject.

3.13 Environmental Matters.

(a) Without limiting the generality of Sections 3.11 and 3.12, (i) Seller is not in violation of, and (ii) Seller currently conducts, and has at all times conducted, its business in compliance in all respects with, Environmental Laws. No permit, certificate, license, approval, registration or other Governmental Authorization is required under any Environmental Laws for the use, maintenance, ownership or storage of any of the Purchased Assets or for the operation of the business of Seller other than those Seller already has.

(b) No notice, citation, summons, order or other correspondence has been received by Seller, no complaint has been filed against Seller, no penalty has been threatened or assessed against Seller and to Seller's Knowledge, no investigation, corrective action, remediation or review is pending or threatened against Seller by any Governmental Body with respect to any Environmental Laws or any violation or alleged violation thereof.

(c) Seller does not use, and has not used at any time, any Hazardous Substances. To Seller's Knowledge, Seller has no Liability relating to, or arising as a result of, any Hazardous Materials that may have been discharged on, or released from, its premises.

3.14 Contracts; Customers and Suppliers; No Defaults.

(a) Schedule 3.14(a) contains an accurate and complete list of (i) all of Seller's customers and licensees and (ii) all of Seller's suppliers, vendors, licensors, sublicensors, and other counterparties to whom Seller made payments ("Suppliers") in excess of \$10,000 during each of 2014 and 2015 and, together therewith, a description (including date and title) of each outstanding contract, agreement or purchase or supply order or commitment with such party.

(b) (i) Each Assumed Contract is in full force and effect and is valid and enforceable in accordance with its terms; and (ii) each Assumed Contract is assignable by Seller to Buyer without the consent or approval of, waiver by, or notice to any other Person.

(c) Seller has not received any written notice that any party to an Assumed Contract has any intention or plan (whether present or future) to terminate any Assumed Contract. None of the Suppliers has given Seller written notice of the termination or any material change in the terms of its business relationship with the Seller.

(d) (i) Seller is, and at all times has been, in compliance with all applicable terms and requirements of each Assumed Contract; (ii) each other Person that has or had any obligation or liability under any Assumed Contract is, and at all times has been, in compliance with all applicable terms and requirements of such Assumed Contract; and (iii) no event has occurred or circumstance now exists or will exist in connection with the delegation and assignment to Buyer of the Assumed Contracts as contemplated hereby that (with or without notice or lapse of time) may contravene, conflict with or result in a breach of, or give Seller or other Person the right to declare a default or exercise any remedy or any right of first refusal or first offer under, or to accelerate the maturity or performance of, or payment under, or to cancel, terminate or modify, or otherwise result in or permit any change in the rights or obligations of any Person under, any Assumed Contract; and (iv) no event has occurred or circumstance exists under or by virtue of any contract that (with or without notice or lapse of time) would cause, and the delegation and assignment to Buyer of, the Assumed Contracts as contemplated hereby will not result in, the creation of any Encumbrance affecting any of the Purchased Assets.

3.15 Insurance. All policies of insurance to which Seller is a party or that provide coverage to Seller (i) are valid, outstanding and enforceable; and (ii) taken together, provide adequate insurance coverage for the Purchased Assets and the operations of Seller for all risks normally insured against by a Person carrying on the same business or businesses as Seller in the same location.

3.16 Intellectual Property Assets.

(a) Schedule 3.16(a) sets forth a true and complete list of the Intellectual Property Assets owned by Seller that are registered or are material Software, and Seller owns all rights, title, and interest in and to such Intellectual Property Assets. For each listed Intellectual Property Asset, Schedule 3.16(a) also includes, where applicable, the registration or application number, the date granted or applied for, the expiration date, the jurisdiction, and the current status thereof. All of the Intellectual Property Assets listed in Schedule 3.16(a), to the extent registered, have been issued by the authority referred to therein, and are held of record in the name of Seller and all pending applications identified in Schedule 3.16(a) have been validly filed with the authority referred to therein in the name of Seller. Except as provided in Schedule 3.16(a), none of the Intellectual Property Assets owned by Seller are licensed to any third party and no third party is authorized to use, copy, distribute, modify, decompile, or prepare derivatives of any of such Intellectual Property Assets, including any Software owned by Seller. All of Seller's right, title and interest to the Intellectual Property Assets, excluding the Patents and Marks, are assigned by Seller to Buyer pursuant to the Intellectual Property Assignment Agreement in the form set forth as Exhibit "B".

(b) Schedule 3.16(b) sets forth a complete and accurate list of all Patents and Marks issued or registered to or owned by Seller, and Seller owns all rights, title, and interest in such Patents and Marks, and all of Seller's right title and interest to such Patents and Marks are assigned by Seller to Buyer in the form of the Assignment of Patents set forth in Exhibit "C" or the Assignment of Marks set forth in Exhibit "E".

(c) Schedule 3.16(c) sets forth any and all Intellectual Property used by Seller that is licensed, leased, or otherwise owned by any third party, excluding licenses for Off-the-Shelf Software.

(d) Schedule 3.16(d) sets forth any and all Software that is licensed, leased, or otherwise provided by any third party to Seller, pursuant to any license, purchase, or other agreement, excluding licenses for Off-the-Shelf Software.

(e) The Intellectual Property Assets set forth in Schedule 3.16(e) require timely payments of governmental maintenance fees, and all other registered Marks, Patents, and Domain Names are currently in material compliance with formal legal requirements (including payment of filing, examination, registration, and maintenance fees where applicable and proofs of working or use), and are not subject to any maintenance fees falling due within ninety (90) days after the Closing Date.

(f) To Seller's Knowledge, there is no pending or threatened objection or claim being asserted against Seller in any administrative or judicial proceeding or by any Person with respect to the ownership, validity, registrability, enforceability or use of any of the Intellectual Property Assets, including any Software, or challenging or questioning the validity or effectiveness of any such ownership or license and there is no basis for any such objection or claim. No notice of rejection, opposition, interference, petition for cancellation, or refusal to register has been received by Seller from a Governmental Body or an adverse party by Seller in connection with any of Seller's applications for Patents, Copyrights, Software, or Domain Name registration.

(g) Seller has not infringed, violated, or misappropriated any Intellectual Property rights of any other Person, and there is no violation, infringement, or misappropriation or alleged violation, infringement, or misappropriation of any currently existing Intellectual Property rights of any Person which will occur as a result of the continued operation of the business of Seller as now conducted. The Intellectual Property Assets and the manufacture, sale, use, offer for sale, and licensing of the Intellectual Property Assets do not violate, infringe, or misappropriate any of the Intellectual Property rights of any Person. There is no present violation, infringement or misappropriation of any of the Intellectual Property Assets by any Person, no one has asserted or threatened any claim or objection against any Person for any such violation, infringement or misappropriation and there is no basis for any such objection or claim. Seller has not agreed to indemnify any Person for or against any interference, infringement, misappropriation, or other violation with respect to any Intellectual Property Asset.

(h) Seller has taken commercially reasonable steps (including measures to protect secrecy and confidentiality) to protect Seller's right, title and interest in and to all Intellectual Property Assets, including the Software, and to cause its employees who have access to confidential or proprietary information of Seller to have a contractual or legal obligation of confidentiality to Seller with respect to such information, and have an obligation to transfer rights for no additional consideration in inventions, and authored works, whether or not patented, patentable, copyrighted or otherwise protectable under the Law, made during the course of their employment prior to the Closing Date using resources of Seller.

(i) Except as provided in Schedule 3.16(i), Seller has not transferred ownership of or granted any license, option, or other rights with respect to, any Intellectual Property Asset, to any third party, or knowingly permitted the rights of Seller in such Intellectual Property Assets to lapse or enter the public domain. No claim is pending or threatened, and no notice or invitation to license has been received, which questions Seller's title to, claims any ownership of, or any rights to, any Intellectual Property Assets.

(j) No Employee is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with his or her duties to Seller or that would conflict with the Employee's best efforts to promote the interest of Seller and the business of Seller as presently conducted and as proposed to be conducted. Each Employee and former Employee and current and former consultant or independent contractor of Seller and any other person who participated in developing the Intellectual Property Assets owned by Seller has, pursuant to a contractual obligation with Seller, validly and properly assigned to Seller the rights of such Employee or former Employee or current or former consultant or independent contractor in and to all inventions, pending patent applications, patents issued and other Intellectual Property Assets used in the business or operations of Seller. No Employee or former Employee or current or former consultant or independent contractor of Seller is in violation of any such contractual obligation. Except as set forth in Schedule 3.16(j), no Employee or former Employee of Seller has excluded works or inventions made prior to his or her employment with Seller from his or her contractual obligation with Seller. It is not or will not be necessary to use any inventions of any Employee or former Employee made prior to their employment by Seller that is not otherwise licensed to Seller.

(k) Schedule 3.16(k) contains a true, correct and complete list of all (i) Open Source Software incorporated or used in, linked to or with, or used to perform, execute, run, develop, compile or derive, any Software (or any component thereof) owned or developed by Seller, and (ii) all licenses and agreements governing such Open Source Software. None of the Intellectual Property Assets (or any components thereof) owned by Seller incorporate or use or are linked to or with any Off-the-Shelf or Open Source Software, or require or rely on Off-the-Shelf or Open Source Software to be performed, executed, run, developed, compiled or derived, in a manner that (A) violates the terms of any license or agreement governing any such Off-the-Shelf or Open Source Software or (B) requires any such Intellectual Property Assets (or any components thereof) to be disclosed or distributed in source code form to any party, be licensed to any party (including for the purpose of making derivative works) or be redistributable at no or minimal charge to any party. Seller will provide to Buyer all material documentation, agreements, or licenses relating to or arising out of Seller's use of any Off-the-Shelf or Open Source Software or Software that is used, maintained or developed by Seller at or before the Closing.

(l) Without limiting the generality of Sections 3.11 and 3.12, Seller is, and at all times, has been, in compliance with all Legal Requirements regarding consumer and data privacy and related matters concerning the disclosure of personally identifiable information.

(m) With respect to each Trade Secret owned or used by to Seller, the documentation in Seller's possession relating to such Trade Secret, if any, is current, accurate and sufficient in detail and content in all material respects to identify and explain it and to allow its full and proper use without reliance on the knowledge or memory of any individual. Seller has taken all commercially reasonable precautions to protect the secrecy, confidentiality, and value of all such Trade Secrets. To Seller's Knowledge, such Trade Secrets are not part of the public knowledge or literature. Such Trade Secrets have not been used, divulged or appropriated either for the benefit of any Person (other than Seller) or to the detriment of Seller. No such Trade Secret is subject to any adverse claim, and no such Trade Secret has been challenged or threatened in any way or infringes any Intellectual Property right of any other Person.

3.17 Relationships With Related Persons. Except as provided in Schedule 3.17, no Related Person of Seller has or has had, any interest in (a) any Purchased Assets or other property (whether real, personal or mixed and whether tangible or intangible) used in or pertaining to Seller's business, or (b) any Person that has had business dealings or a material financial interest in any transaction with Seller or engaged in competition with Seller. No Related Person of Seller is a party to any contract, understanding or arrangement with, or has any claim (whether contractual or otherwise), cause of action or right or entitlement against, Seller, whether contingent or absolute, direct or indirect, or express or implied (including any claim for any payment or entitlement to any service or property and any loan or indebtedness, whether in favor of Seller or such Related Person), except as set forth on Schedule 3.17. Notwithstanding anything in Section 3.17, the representations in this Section 3.17 do not apply to Intellectual Property, which is covered exclusively in Section 3.16.

3.18 Brokers or Finders. Neither Seller nor any of its Representatives have incurred any obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payments in connection with the sale of the Purchased Assets or the Contemplated Transactions.

3.19 Financial Statements. Attached as Schedule 3.19 is a true, correct and complete copy of the statements of income, cash flows and balance sheets of Seller as of and for its fiscal years ended December 31, 2012, December 31, 2013, and December 31, 2014 (the "Annual Financial Statements"), and Seller's income statements, cash flows, and balance sheets as of the Balance Sheet Date (collectively, the "Interim Financial Statements"). The Annual Financial Statements and Interim Financial Statements have been prepared from the underlying books and records of Seller and (i) fairly present in all material respects the financial condition of Seller, the results of operations and cash flows of Seller for the periods therein referred to, and the assets and liabilities of Seller as of the dates thereof, in each case, without any material departure from GAAP as applied by Seller for the periods indicated, except, with respect to the documents as of the Balance Sheet Date, normal year-end adjustments in accordance with past practice of Seller and the absence of footnotes; (iii) include all the material expenses or obligations incurred by Seller and/or any Affiliates thereof related to Seller or the business of Seller required to be disclosed in accordance with GAAP applied on a basis consistent with Seller's past practices, except for expenses or obligations incurred since the Balance Sheet Date in the ordinary course of business or in connection with the Transaction Documents; and (iv) include on a consistent basis all of the assets, liabilities, reserves, allowances and accruals related to Seller and/or the business of Seller required to be included in accordance with GAAP applied on a basis consistent with Seller's past practices, except for assets, liabilities, reserves, allowances and accruals accrued or incurred since the Balance Sheet Date in the ordinary course of business or in connection with the Transaction Documents.

3.20 Product Warranty and Product Liability.

(a) Schedule 3.20 contains a summary of Seller's good faith estimate of claims for, any (i) product returns, or (ii) warranty obligations relating to any products, goods or services sold, delivered, distributed, licensed, sublicensed or rendered by Seller.

(b) The goods, products and services sold, delivered, distributed, licensed, sublicensed or rendered by the Seller relating to the business of Seller conform in all material respects to the specifications, documentation, samples and/or sales demonstrations furnished to the customers or purchasers of such products, goods or services (as the case may be).

3.21 Receivables. Seller does not warrant the collectability of any of its receivables. Seller's balance sheet as of the Balance Sheet Date includes receivables that are over 90 days past due and may not be collectible.

3.22 Disclosure. No representation or warranty or other statement made by Seller in this Agreement or the Disclosure Schedules contains any untrue statement of a material fact or omits to state a material fact necessary to make any of them, in light of the circumstances in which it was made, not materially misleading. To Seller's Knowledge, there is no fact that has specific application to Seller (other than general economic or industry conditions) and that may materially adversely affect the assets, business, prospects, financial condition or results of operations of Seller that has not been set forth in this Agreement or the Disclosure Schedules.

4. REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller that the statements in this Section 4 are true and correct as of the date hereof.

4.1 Organization and Good Standing. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania, with full corporate power and authority to conduct its business as it is now conducted.

4.2 Authority; No Conflict

(a) This Agreement constitutes the legal, valid and binding obligation of Buyer, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to or affecting the rights of creditors generally and by equitable principles (whether applied in a proceeding at law or in equity). Upon the execution and delivery by Buyer of the Transaction Documents to be executed or delivered by Buyer at the Closing, such Transaction Documents will constitute the legal, valid and binding obligation of Buyer, enforceable against it in accordance with their respective terms; provided, that the exceptions pertaining to enforceability set forth in the immediately preceding sentence shall apply equally to this sentence. Buyer has the right, power and authority to execute and deliver this Agreement and each of the Transaction Documents to be executed or delivered by Buyer at the Closing and to perform its obligations under this Agreement and each of such Transaction Documents, and such action has been duly authorized by all necessary company action.

(b) Neither the execution and delivery of this Agreement nor the consummation or performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time): (i) breach any provision of any of the articles of incorporation or bylaws of Buyer, as amended; (ii) breach or give any Governmental Body or other Person the right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under any Legal Requirement or any Order to which Buyer may be subject; or (iii) breach any provision of any contract or agreement to which Buyer is bound.

4.3 Certain Proceedings. There is no pending or, to Buyer's knowledge, threatened Proceeding that has been commenced against Buyer and that challenges, or may have the effect of preventing, delaying, making illegal or otherwise interfering with, any of the Contemplated Transactions.

4.4 Brokers or Finders. Neither Buyer nor any of its Representatives have incurred any obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with the Contemplated Transactions.

4.5 Disclosure. No representation or warranty or other statement made by Buyer in this Agreement contains any untrue statement of a material fact or omits to state a material fact necessary to make any of them, in light of the circumstances in which it was made, not materially misleading.

5. COVENANTS

5.1 Employee Matters and Employee Benefits. Except as expressly provided in this Agreement, nothing in this Agreement (including Sections 5.2 and 5.3) shall be deemed to impose on Buyer any Liabilities or responsibilities (including, for the avoidance of doubt, Taxes, if any) for periods prior to the Closing Date to or relating to Seller's employees, consultants or independent contractors (or those of any Affiliate of Seller) in their capacity as such, including without limitation, Liabilities or responsibilities for (a) pension, retirement, profit-sharing, savings, medical, dental, disability income, life insurance or accidental death benefits, whether insured or self-insured, whether funded or unfunded, (b) workers' compensation (both long term and short term) benefits, whether insured or self-insured, whether or not accruing or based upon exposure to conditions prior to the date of this Agreement or for claims incurred or for disabilities commencing prior to the Closing Date, or (c) severance benefits.

5.2 Former Employees. Notwithstanding Section 5.1, Buyer anticipates that all of the employees of Seller would be employed by Buyer following the Closing Date and through a minimum ninety (90) to one hundred and eighty (180) day transition period to ensure seamless customer integration and appropriate knowledge transfer. Thereafter, employees would be retained by Buyer based upon their role, responsibility and performance consistent with all other employees of Buyer. As employees of Buyer, former employees of Seller would be covered by and entitled to all fringe benefits that are generally available to employees of Buyer, including health insurance, dental insurance, group life and disability insurance, and matching 401(k) plan, subject to the eligibility and participation requirements of such benefits and plans. At the Closing, Buyer and each employee of Seller would execute and deliver either an employment or a non-solicitation agreement, as the case may be, in the form attached hereto as Exhibit "G".

5.3 COBRA. Buyer and the buying group (as defined in Treasury Regulation Section 54.4980B-9, Q&A-3(b)) of which it is a part, and not Seller or the selling group (as defined in Treasury Regulation Section 54.4980B-9, Q&A-3(a)) of which it is a part, shall be solely responsible for providing continuation coverage under Sections 601-608 of ERISA, Section 4980B of the Code and similar state laws to those individuals who are M&A qualified beneficiaries (as defined in Treasury Regulation Section 54.4980B-9, Q&A-4(a)) with respect to the transactions contemplated in or by this Agreement.

5.4 Assignment and Assumption of Lease. At the Closing, Seller and Buyer shall enter into an assignment in the form attached hereto as Exhibit "D" of the Leased Real Property as more particularly set forth therein (the "Assignment and Assumption of Lease").

5.5 Assignment of Intellectual Property Assets; Payment of Maintenance Fees. At the Closing, Seller and Buyer shall enter into and execute an assignment of the Intellectual Property Assets in the form attached hereto as Exhibit "B" (the "Intellectual Property Assignment Agreement"), and an assignment of the Seller's Patents, in the form attached hereto as Exhibit "C" (the "Assignment of Patents") and an assignment of the Marks, in the form attached hereto as Exhibit "E" (the "Assignment of Marks"). Seller agrees to pay all maintenance expenses related to the Patents or Marks through the Closing Date, and Buyer agrees to pay all maintenance expenses related to the Patents or the Marks on and after the Closing Date, as it chooses to do at its sole discretion.

5.6 Seller Covenants. Seller shall perform the following covenants:

(a) Pay in a timely manner all Taxes resulting from or payable in connection with the sale of the Assets pursuant to this Agreement that are imposed on Seller.

(b) Pay, or make adequate provision for the payment, in full, of all of the Retained Liabilities, including but not limited to (i) an amount equal to the vending cash payable to operators (account no. 2300) of Seller as of the Closing Date shall be paid to the appropriate operators, and (ii) an amount equal to any customer deposits (account no. 2410) of Seller as of the Closing Date shall be paid to the applicable customer.

(c) Cooperate with Buyer and its counsel in the contest or defense of, and make available its personnel and provide any testimony and access to its books and records in connection with, any Proceeding involving or relating to (i) any Contemplated Transaction or (ii) any action, activity, circumstance, condition, conduct, event, fact, failure to act, incident, occurrence, plan, practice, situation, status or transaction on or before the Closing Date involving Seller or its business.

(d) On the Closing Date, Seller shall (i) file with the Secretary of State of the State of Delaware an amendment to the certificate of incorporation of Seller changing the legal name of Seller to a name that does not include the words "VendScreen" or any variation thereof or any word that is similar in sound or appearance to such words or otherwise confusingly similar thereto, (ii) file all corresponding documents, filings or certificates necessary to effect the same name change with the applicable Governmental Body in any other jurisdiction in which Seller has qualified to do business as a foreign entity or otherwise registered (the filings required by Section 5.6(d)(i) and (ii), collectively, the "Amendments"), and (iii) provide that its board of directors and/or stockholders of Seller, as applicable, adopt an amendment to the bylaws of Seller reflecting the name change required under Section 5.6(d)(i). From and after the Closing Date, Seller (x) shall discontinue any use of the name "VendScreen" and any service marks, trademarks, trade names, trade dress, identifying symbols, logos, emblems, signs, insignia and other marks related thereto or containing or comprising the foregoing, including any name or mark confusingly similar thereto, (y) shall not hold itself out as having any affiliation with Buyer or its Affiliates, and (z) shall cause each of its subsidiaries and Affiliates to comply with each of the restrictions set forth in clauses (x) and (y) of this sentence.

5.7 Buyer Covenants. Buyer shall assume, perform and discharge, as and when due all Assumed Liabilities.

5.8 Further Assurances.

(a) From time to time, as and when requested by any Party hereto, the other Party hereto shall, to the extent reasonably practicable, execute and deliver, or cause to be executed and delivered, all such documents, assignments, and instruments and shall take, or cause to be taken, all such further or other actions reasonably necessary to evidence and effectuate the transactions contemplated by this Agreement. The reasonable out-of-pocket expenses of the other Party shall be paid by the requesting Party.

(b) Following the Closing Date, in order for Buyer to prepare all historical financial statements of Seller, including audited, unaudited, and pro forma financial statements, as may be required to be filed on a current report on Form 8-K with the Securities and Exchange Commission (the "SEC") in connection with the Contemplated Transactions, Seller agrees to make commercially reasonable efforts to (i) furnish to Buyer or its Representatives any additional documents or information relating to Seller (as to periods on or prior to the Closing Date), the Purchased Assets, or the business of Seller in the possession or control of Seller, its directors, officers, agents, or advisors (including corporate, financial, and accounting books and records, work papers, sales records, invoices, and other documents necessary for the completion of a financial audit or other such financial statements), and (ii) provide all such other assistance as may be necessary or desirable for the preparation of audited or other financial statements required to be filed by Buyer with the SEC, including providing any certifications, representations (including the signing of management representation letters), or consents requested by Buyer, providing cooperation with all auditors, accountants, and Representatives of Buyer, and providing access to personnel of Seller, in each case (i) and (ii), after reasonable request by Buyer and to the extent practical in light of Seller's personnel and resources following the Closing Date. All of the costs and expenses incurred by Buyer or Seller in connection with the preparation of such financial statements shall be paid by the Buyer.

5.9 Public Announcements. Unless otherwise required by applicable law, Seller shall not make any public announcements regarding this Agreement or the Contemplated Transactions without the prior written consent of the Buyer (which consent shall not be unreasonably withheld or delayed); provided, that notwithstanding anything to the contrary in this Section 5.9, Seller acknowledges and agrees that Buyer may make reference to this Agreement, the other Transaction Documents and the Contemplated Transactions, and may file this Agreement and any of the Transaction Documents as an exhibit, in any report or reports on Form 8-K, 10-Q or 10-K or similar forms and filings with the United States Securities and Exchange Commission or in any press release or other public statement.

5.10 Noncompetition, Nonsolicitation and Confidentiality.

(a) Noncompetition. Except to the extent necessary to fulfill its Retained Liabilities, fulfill its obligations under the Transaction Documents and wind down its operations, Seller covenants and agrees that for a period of five (5) years following the Closing Date (the "Restricted Period"), it will not, directly or indirectly, either alone or in conjunction with any other Person:

(i) Engage in any Competitive Activity (as defined below) within the Prohibited Territory (as defined below); and/or

(ii) As an employee, agent, partner, shareholder, member, investor or other equity holder, director, manager, independent contractor, consultant, advisor or in any other capacity, direct or assist any other Person to engage in any Competitive Activity within the Prohibited Territory.

(b) Terms used in this Section shall have the following meanings:

(i) "Competitive Activity" means (A) being engaged in any aspect of the Restricted Business; and/or (B) the design, development, production, marketing, selling or rendering of any services or products that are substantially similar to, are competitive with, or could be used as a substitute or replacement for, the services or products of Seller or Buyer as of the Closing Date.

(ii) "Prohibited Territory" means worldwide.

(iii) “Restricted Business” means the business engaged in by Seller as of the Closing Date, including the business of producing devices that interface with existing vending machines to allow for cashless payments, display of nutrition information, and display of advertisements and providing related services such as credit and debit card processing within the vending machine industry.

(c) Nonsolicitation. Except to the extent necessary to fulfill its Retained Liabilities, fulfill its obligations under the Transaction Documents and wind down its operations, during the Restricted Period, Seller shall not, directly or indirectly, sell or solicit the sale of products or services relating to the Restricted Business.

(d) Confidentiality. At all times from and after the Closing Date, (i) Seller shall provide, at a minimum, the same care to avoid disclosure or unauthorized use of the Confidential Information that Seller exercises in maintaining its own confidential information (but no less than a reasonable degree of care), and (ii) except to the extent reasonably necessary to fulfill its Retained Liabilities, fulfill its obligations under the Transaction Documents and wind down its operations, the Confidential Information shall not be used, disclosed, or reproduced in any form or manner whatsoever by Seller. The Confidential Information shall be deemed the property of Buyer.

Any disclosure by Seller of any Confidential Information pursuant to applicable federal, state or local law, regulation or a valid subpoena or order issued by a court or governmental agency of competent jurisdiction (a “Legal Order”) shall be subject to the terms of this subsection (d). Prior to making any such disclosure, Seller shall provide Buyer with: (i) to the extent permitted by law, prompt written notice of such requirement so that Buyer may seek a protective order or other remedy, provided that Seller shall use commercially reasonable efforts to provide such notice to Buyer no more than five (5) business days after Seller’s receipt of the request for disclosure; and(ii) to the extent reasonably practicable, commercially reasonable assistance, at Buyer’s expense and upon Buyer’s request, in opposing such disclosure or seeking a protective order or other limitations on disclosure. If, after providing such notice and assistance as required herein, Seller remains subject to a Legal Order to disclose any Confidential Information, Seller (or other persons to whom such Legal Order is directed) shall disclose no more than that portion of the Confidential Information which, on the advice of Seller’s legal counsel, such Legal Order specifically requires Seller to disclose and, upon Buyer’s request and expense shall use commercially reasonable efforts to obtain assurances from the applicable Governmental Body that such Confidential Information will be afforded confidential treatment.

(e) Seller has carefully read and considered the provisions of this Agreement and, having done so, agrees that the restrictions set forth in this Section 5.10 are fair and reasonable given the terms and conditions of this Agreement. Seller further agrees that the restrictions set forth in this Section 5.10 are reasonably required for the protection of the legitimate business interests of Buyer. Seller agrees not to contest the reasonableness of the restrictions set forth in this Section 5.10 before any court, arbitrator, arbitration panel or other body.

(f) If a judicial or arbitral determination is made that any of the provisions of this Section 5.10 constitutes an unreasonable or otherwise unenforceable restriction against Seller (whether on its face or as applied), the provisions of this Section 5.10 shall be rendered void only to the extent that such judicial or arbitral determination finds such provisions to be unreasonable or otherwise unenforceable with respect to Seller.

6. INDEMNIFICATION; REMEDIES

6.1 Survival. All representations and warranties (a) other than the representations and warranties contained in Sections 3.1, 3.2(a), 3.18, 4.1, 4.2(a) and 4.4 (collectively, the “Fundamental Representations”), and (b) other than the representations and warranties contained in Section 3.16 (the “Intellectual Property Representations”), contained herein shall survive for a period of twelve (12) months from the Closing Date. The Fundamental Representations shall survive until the expiration of the applicable statute of limitations and the Intellectual Property Representations shall survive for a period of three (3) years following the Closing Date. Any claim or suit based upon fraud or intentional misrepresentation shall survive indefinitely. If a Buyer or Seller Indemnified Party delivers to an Indemnifying Party, before the expiration date of a particular representation or warranty, a notice with reasonable specificity pursuant to this Section 6, then such representation or warranty shall continue to survive beyond such expiration date, but only for purposes of the matter(s) specified in such notice and, unless otherwise agreed in writing by the Parties, only for up to a year unless Buyer files a claim or commences a Proceeding with respect to the subject matter of such notice prior to the expiration of such one-year period.

6.2 Indemnification by Seller. After the Closing and subject to the terms and conditions of this Section 6, Seller shall indemnify and hold harmless Buyer, its successors and assigns and its Representatives (collectively, the “Buyer Indemnified Parties”), for all Losses, directly or indirectly, relating to or arising from (without duplication): (a) any breach or inaccuracy of any representation or warranty made by Seller in this Agreement or in any other Transaction Document; (b) any breach of any covenant or agreement of Seller in this Agreement or in any other Transaction Document; (c) the Retained Liabilities; (d) the Excluded Assets; and (e) any Liabilities or responsibilities described in Section 5.

6.3 Indemnification by Buyer. After the Closing, subject to the terms and conditions of this Section 6, Buyer shall indemnify and hold harmless Seller, its successors and assigns and its Representatives (collectively, the “Seller Indemnified Parties”), for all Losses, directly or indirectly, relating to or arising from (without duplication): (a) any breach or inaccuracy, of any representation or warranty made by Buyer in this Agreement or in any other Transaction Document; and (b) any breach of any covenant or agreement of Buyer in this Agreement or in any other Transaction Document.

6.4 Notice. If a Buyer Indemnified Party or a Seller Indemnified Party (the "Claimant") believes that it has suffered or incurred any Loss, it shall so notify the party which the Claimant believes has an obligation to indemnify (the "Indemnifying Party") promptly as reasonably possible in writing describing such loss or expense, the amount thereof, if known, and the method of computation of such loss or expense, all with reasonable particularity.

6.5 Defense of Claims.

(a) If any action at law, suit in equity, arbitration or administrative action is instituted by or against a third party (including any Governmental Body) with respect to which the Claimant intends to claim any liability or expense as a Loss subject to indemnification under this Section 6, it shall include in the notice required by Section 6.4 a description of such action or suit, describing such loss or expenses, the amount thereof, if known, and the method of computation of such loss or expense, all with reasonable particularity.

(b) The Indemnifying Party shall have thirty (30) days after receipt of such notice to notify the Claimant that it elects to conduct and control any legal or administrative action or suit with respect to an indemnifiable claim. Until the Indemnifying Party gives the foregoing notice, the Claimant shall have the right to defend, contest, settle, or compromise such action or suit in its exclusive discretion, provided that in such event the Claimant shall waive any right to indemnity therefor by the Indemnifying Party and no amount in respect thereof shall be claimed as Loss under this Section 6.

(c) If the Indemnifying Party gives the above-described notice, the Indemnifying Party shall have the right to undertake, conduct, and control, through counsel of its own choosing and at its sole expense, the conduct and settlement of such action or suit, and the Claimant shall cooperate with the Indemnifying Party in connection therewith; provided, however, that (a) the Indemnifying Party shall not thereby consent to the imposition of any injunction, Order or settlement against or involving the Claimant without the written consent of the Claimant, which consent shall not be unreasonably withheld; (b) the Indemnifying Party shall permit the Claimant to participate in such conduct or settlement through counsel chosen by the Claimant, but the fees and expenses of such counsel shall be borne by the Claimant except as provided in clause (c) below; and (c) upon a final determination of such action or suit, the Indemnifying Party shall promptly reimburse the Claimant, to the extent required under this Section 6, for the full amount of any Loss resulting from such action or suit incurred by the Claimant, other than fees and expenses of counsel for the Claimant incurred after the assumption of the conduct and control of such action or suit by the Indemnifying Party (except in the case that the use of the legal counsel selected by the Indemnifying Party presents a conflict of interest with respect to the Claimant, in which case the Claimant may employ legal counsel of its choice after the assumption of the conduct and control of such action or suit by the Indemnifying Party and shall be entitled to reimbursement of the fees and expenses thereof by the Indemnifying Party).

(d) So long as the Indemnifying Party is contesting any such action or suit in good faith, the Claimant shall not pay or settle any such action or suit. Notwithstanding the foregoing, the Claimant shall have the right to pay or settle any such action or suit, provided that in such event the Claimant shall waive any right to indemnity therefor by the Indemnifying Party and no amount in respect thereof shall be claimed as Loss under this Section 6. The Indemnifying Party shall be entitled to contest the issue of its obligations of indemnification hereunder, provided that the Indemnifying Party complies with the provisions hereof.

6.6 Payment of Losses. The Indemnifying Party shall pay to the Claimant in immediately available cash the amount to which the Claimant is entitled by reason of the provisions of this Section 6, such payment to be made within five (5) business days after such amount is finally determined either by mutual agreement of the Parties or pursuant to the final, non-appealable judgment or Order of a court of competent jurisdiction. Notwithstanding the foregoing, any amount to which Buyer becomes entitled by reason of the provisions of this Section 6 shall be paid as follows:

(a) first, from the Escrow Deposit (together with all interest earned thereon) on the terms and conditions of the Escrow Agreement so long as the Escrow Deposit is available for distribution; and

(b) thereafter, from the Seller for any amount to which Buyer becomes entitled by reason of the provisions of this Section 6 which has not otherwise been satisfied pursuant to Section 6.6(a), subject to the limitations set forth in Section 6.

6.7 Exclusivity. The Parties agree that the sole and exclusive remedy of any Party or their respective Affiliates with respect to this Agreement, the Transaction Documents or any other claims relating to the Purchased Assets, the events giving rise to this Agreement and the other transactions contemplated hereby shall be limited to the indemnification provisions set forth in this Section 6; provided however, that nothing in this Section 6.7 shall prevent either Party from seeking injunctive or equitable relief, including but not limited to specific performance, for claims of breach or failure to perform any covenant set forth in this Agreement; provided, further, that notwithstanding anything in this Agreement to the contrary, nothing contained in this Section 6.7 shall relieve or limit the liability of any Party or any officer or director of such Party from any liability arising out of or resulting from intentional misrepresentation or fraud in connection with the Contemplated Transactions or any of the Transaction Documents.

6.8 Limitations. Except in the case of intentional misrepresentation or fraud, or from a breach of a Fundamental Representation, the aggregate liability of Seller under Section 6 shall in no event exceed the Purchase Price.

6.9 Insurance. The amount of any and all Losses under this Section 6 shall be determined net of any amounts actually recovered by the Claimant under insurance policies, indemnities or other reimbursement arrangements with respect to such Losses.

6.10 Basket Provision. Notwithstanding anything to the contrary contained herein, Seller shall not be liable under this Section 6 until the aggregate amount of all Losses for which it would otherwise be liable exceeds Thirty-Two Thousand Five Hundred Dollars (\$32,500) (the "Basket Amount"), in which event Seller shall be required to pay or be liable for all Losses from the first dollar; provided, however, that the Basket Amount shall not apply to Losses incurred in connection with a breach of any Fundamental Representation or any fraud or intentional misrepresentation.

6.11 Adjustment to Purchase Price. Any indemnity payments received under this Section 6 shall be treated by Seller and Buyer, to the extent permitted by Legal Requirements, as adjustments to the Purchase Price.

6.12 Effect of Knowledge. The representations, warranties and covenants of any Indemnifying Party, and any Buyer or Seller Indemnified Party's right to indemnification with respect thereto, shall not be affected or deemed waived by reason of any investigation made by or on behalf of the Buyer or Seller Indemnified Party (including by any of its Representatives) or by reason of the fact that the Buyer or Seller Indemnified Party or any of its Representatives knew or should have known that any such representation or warranty is, was or might be inaccurate.

7. GENERAL PROVISIONS

7.1 Expenses. Except as otherwise provided in this Agreement, each Party will bear its respective fees and expenses incurred in connection with the preparation, negotiation, execution and performance of this Agreement and the Contemplated Transactions, including all fees and expense of its Representatives.

7.2 Notices. All notices, consents, waivers and other communications required or permitted by this Agreement or any Transaction Document shall be in writing and shall be deemed given to a Party (a) when delivered to the appropriate address by hand or by nationally recognized overnight courier service (costs prepaid); (b) upon written confirmation of receipt by the recipient of such notice if notice was sent by facsimile or e-mail transmission; or (c) upon the third business day after such notice is deposited in the United States mail, if mailed by certified mail, return receipt requested, in each case to the following addresses, facsimile numbers or e-mail addresses and marked to the attention of the person (by name or title) designated below (or to such other address, facsimile number, e-mail address or person as a Party may designate by written notice to the other parties):

To Buyer:
USA Technologies, Inc.
Suite 140, 100 Deerfield Lane
Malvern, PA 19355
Attention: Stephen P. Herbert, Chairman and CEO
Email: sherbert@usatech.com
Telephone: 610-989-0340
Facsimile: 610-989-0704

With copy to:
Lurio & Associates, P.C.
2005 Market Street, Suite 3120
Philadelphia, PA 19103
Attention: Douglas M. Lurio, Esquire
Email: dlurio@luriolaw.com
Telephone: 215-665-9300
Facsimile: 215-665-8582

To Seller:
3x5 Special Opportunity Fund, L.P.
[]
[]
Attention: Nicholas Walrod
Email: nwalrod@3x5fund.com
Telephone: (503) 808-9645
Facsimile: n/a

With copy to:
Perkins Coie LLP
1120 N.W. Couch Street, Tenth Floor
Portland, OR 97209-4128
Attention: Brentley M. Bullock, Esquire
Email: bbullock@perkinscoie.com
Telephone: 503-727-2020
Facsimile: 503-346-2020

7.3 Jurisdiction; Service of Process. Any Proceeding arising out of or relating to this Agreement, any Transaction Document, or any Contemplated Transaction shall be brought in the courts of the Commonwealth of Pennsylvania, in the City of Philadelphia, or, if it has or can acquire jurisdiction, in the United States District Court for the Eastern District of Pennsylvania, and each of the parties irrevocably submits to the exclusive jurisdiction of each such court in any such Proceeding, waives any objection it may now or hereafter have to venue or to convenience of forum, agrees that all claims in respect of the Proceeding shall be heard and determined only in any such court and agrees not to bring any Proceeding arising out of or relating to this Agreement, any Transaction Document, or any Contemplated Transaction in any other court. Service of process, summons, notice or other document by mail to a Party's address set forth herein shall be effective service of process for any suit, action or other proceeding brought in any such court.

7.4 Waiver; Remedies Cumulative. The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither any failure nor any delay by any Party in exercising any right, power or privilege under this Agreement or any of the documents referred to in this Agreement will operate as a waiver of such right, power or privilege, and no single or partial exercise of any such right, power or privilege will preclude any other or further exercise of such right, power or privilege or the exercise of any other right, power or privilege. No claim or right arising out of this Agreement or any of the documents referred to in this Agreement can be discharged by one Party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other Party.

7.5 Entire Agreement and Modification. This Agreement supersedes all prior agreements, understandings and expressions of intent (including the Letter of Intent dated September 17, 2015, by Buyer as accepted by Seller, the Prior Confidentiality Agreements, and the ePort Connect Services Agreement between Seller and Buyer dated May 6, 2015), whether written or oral, between the parties with respect to its subject matter and constitute (along with the Disclosure Schedules, Exhibits, and other Transaction Documents) a complete and exclusive statement of the terms of the agreement between the parties with respect to its subject matter. This Agreement may not be amended, supplemented or otherwise modified except by a written agreement executed by each Party to this Agreement.

7.6 Assignments and Successors. No Party may assign any of its rights or delegate any of its obligations under this Agreement without the prior written consent of the other Party; provided, however, that Buyer may assign its rights and obligations to any Affiliate of Buyer. This Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the parties.

7.7 Severability. If any provision of this Agreement, or the application of any provision of this Agreement to any person or circumstance, is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement, and the application of any such provision of this Agreement to persons or circumstances other than those as to which it was held invalid or unenforceable, will remain in full force and effect and such provision shall be deemed to be replaced by the valid and enforceable provision most substantively similar thereto. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

7.8 No Third Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the parties hereto and their respective successors and permitted assigns.

7.9 Construction. The headings of Sections in this Agreement are provided for convenience only and will not affect its construction or interpretation.

7.10 Specific Performance. The Parties agree that irreparable damage would occur if any provision of this Agreement (including but not limited to Section 5) were not performed in accordance with the terms hereof and that the Parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy to which they are entitled at law or in equity.

7.11 Governing Law. This Agreement or any Transaction Document (and any claim or dispute relating directly or indirectly to, or arising in connection with, this Agreement or any Transaction Document) will be governed by and construed under the laws of the state of Delaware without regard to conflicts of laws principles that would require the application of any other law.

7.12 Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement. The exchange of copies of this Agreement and of signature pages by facsimile or electronic transmission shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the manually-signed original Agreement for all purposes. Signatures of the parties transmitted by facsimile or electronically shall be deemed to be their original signatures for all purposes.

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first written above.

BUYER:

USA TECHNOLOGIES, INC.

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

SELLER:

VENDSCREEN, INC.

By: /s/ David G. Grano
David G. Grano,
President and Chief Executive Officer

EXHIBIT LIST

“A” – Escrow Agreement

“B” – Intellectual Property Assignment Agreement

“C” – Assignment of Patents

“D” – Assignment and Assumption of Lease

“E” – Assignment of Marks

“F” – Bill of Sale

“G” – Non-Solicitation Agreements and Employment and Non-Solicitation Agreements

“H” – Assumption Agreement

“I” – Domain Name Assignment Agreement

“J” – Transition Services Agreement

SCHEDULE LIST

2.1(a)(i) – Tangible Personal Property

2.1(b) – Inventories

2.1(c) – Assumed Contracts

2.1(e) – Governmental Authorizations

Disclosure Schedules

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

USA TECHNOLOGIES, INC.

HERITAGE BANK OF COMMERCE

LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT is entered into as of March 29, 2016, by and between HERITAGE BANK OF COMMERCE (“Bank”) and USA TECHNOLOGIES, INC. (“Borrower”).

RECITALS

Borrower wishes to obtain credit from time to time from Bank, and Bank desires to extend credit to Borrower. This Agreement sets forth the terms on which Bank will advance credit to Borrower, and Borrower will repay the amounts owing to Bank.

AGREEMENT

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 Definitions. As used in this Agreement, the following terms shall have the following definitions:

“Accounts” means all presently existing and hereafter arising accounts, contract rights, payment intangibles, and all other forms of obligations owing to Borrower arising out of the sale or lease of goods (including, without limitation, the licensing of software and other technology) or the rendering of services by Borrower, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower and Borrower’s Books relating to any of the foregoing.

“Adjusted EBITDA” means net income (loss) before interest income, interest expense, income taxes, depreciation, amortization, non-recurring professional service fees recorded in selling, general and administrative (SG&A) expenses that were incurred in connection with the VendScreen, Inc. transaction as well as other integration and transaction expenses related to VendScreen, Inc., change in fair value of warrant liabilities and stock-based compensation expense.

“Advance” or “Advances” means a cash advance or cash advances under the Revolving Facility.

“Affiliate” means, with respect to any Person, any Person that owns or controls directly or indirectly such Person, any Person that controls or is controlled by or is under common control with such Person, and each of such Person’s senior executive officers, directors, and partners.

“Bank Expenses” means all: reasonable costs or expenses (including reasonable attorneys’ fees and expenses) incurred in connection with the preparation, negotiation, administration, and enforcement of the Loan Documents; reasonable Collateral audit fees; and Bank’s reasonable attorneys’ fees and expenses incurred in amending, enforcing or defending the Loan Documents (including fees and expenses of appeal), incurred before, during and after an Insolvency Proceeding, whether or not suit is brought.

“Borrower’s Books” means all of Borrower’s books and records including: ledgers; records concerning Borrower’s assets or liabilities, the Collateral, business operations or financial condition; and all computer programs, or tape files, and the equipment, containing such information.

“Borrowing Base” means an amount equal to eighty-five percent (85%) of License and Transaction Revenue.

“Business Day” means any day that is not a Saturday, Sunday, or other day on which banks in the State of California are authorized or required to close.

“Change in Control” shall mean a transaction in which any “person” or “group” (within the meaning of Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becomes the “beneficial owner” (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of a sufficient number of shares of all classes of stock then outstanding of Borrower ordinarily entitled to vote in the election of directors, empowering such “person” or “group” to elect a majority of the Board of Directors of Borrower, who did not have such power before such transaction.

“Closing Date” means the date of this Agreement.

“Code” means the California Uniform Commercial Code.

“Collateral” means the property described on **Exhibit A** attached hereto.

“Contingent Obligation” means, as applied to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to (i) any indebtedness, lease, dividend, letter of credit or other obligation of another; (ii) any obligations with respect to undrawn letters of credit for the account of that Person; and (iii) all obligations arising under any agreement or arrangement designed to protect such Person against fluctuation in interest rates, currency exchange rates or commodity prices; provided, however, that the term “Contingent Obligation” shall not include endorsements for collection or deposit in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determined amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by Bank in good faith; provided, however, that such amount shall not in any event exceed the maximum amount of the obligations under the guarantee or other support arrangement.

“Copyrights” means any and all copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof.

“Credit Extension” means each Advance or any other extension of credit by Bank for the benefit of Borrower hereunder.

“Daily Balance” means the amount of the Obligations owed at the end of a given day.

“Equipment” means all present and future machinery, equipment, computer hardware and software, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

“Event of Default” has the meaning assigned in Section 8.

“GAAP” means generally accepted accounting principles as in effect from time to time.

“Guaranty” means the secured guaranty of even date by Stitch Networks Corporation and USAT Capital Corp LLC.

“Indebtedness” means (a) all indebtedness for borrowed money or the deferred purchase price of property or services, including without limitation reimbursement and other obligations with respect to surety bonds and letters of credit, (b) all obligations evidenced by notes, bonds, debentures or similar instruments, (c) all capital lease obligations, and (d) all Contingent Obligations respecting obligations of the type set forth in (a), (b), or (c) above.

“Insolvency Proceeding” means any proceeding commenced by or against any person or entity under any provision of the United States Bankruptcy Code, as amended, or under any other bankruptcy or insolvency law, including assignments for the benefit of creditors, formal or informal moratoria, compositions, extension generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

“Intellectual Property” means all of Borrower’s right, title, and interest in and to the following: Copyrights, Trademarks and Patents; all trade secrets, all design rights, claims for damages by way of past, present and future infringement of any of the rights included above, all licenses or other rights to use any of the Copyrights, Patents or Trademarks, and all license fees and royalties arising from such use to the extent permitted by such license or rights; all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents; and all proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

“Inventory” means all inventory in which Borrower has or acquires any interest, including work in process and finished products intended for sale or lease or to be furnished under a contract of service, of every kind and description now or at any time hereafter owned by or in the custody or possession, actual or constructive, of Borrower, including such inventory as is temporarily out of its custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above, and Borrower’s Books relating to any of the foregoing.

“Investment” means any beneficial ownership of (including stock, partnership interest or other securities) any Person, or any loan, advance or capital contribution to any Person.

“IRC” means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

“License and Transaction Revenue” shall mean Borrower’s license and transaction fee revenue (as is reflected as such in its consolidated statement of operations) for the preceding three (3) calendar months.

“Lien” means any mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

“Loan Documents” means, collectively, this Agreement, any note or notes executed by Borrower, any guarantees by third parties, all documents and agreements listed in Section 3.1, and any other agreement entered into in connection with this Agreement, all as amended or extended from time to time.

“Material Adverse Effect” means a material adverse effect on (i) the business operations, condition (financial or otherwise) or prospects of Borrower and its Subsidiaries taken as a whole or (ii) the ability of Borrower to repay the Obligations or otherwise perform its obligations under the Loan Documents or (iii) the value or priority of Bank’s security interests in the Collateral.

“Negotiable Collateral” means all letters of credit of which Borrower is a beneficiary, notes, drafts, instruments, securities, documents of title, and chattel paper, and Borrower’s Books relating to any of the foregoing.

“Obligations” means all debt, principal, interest, Bank Expenses and other amounts owed to Bank by Borrower pursuant to this Agreement or any other Loan Document (other than the Warrant), whether absolute or contingent, due or to become due, now existing or hereafter arising, including any interest that accrues after the commencement of an Insolvency Proceeding and including any debt, liability, or obligation owing from Borrower to others that Bank may have obtained by assignment or otherwise.

“Patents” means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

“Periodic Payments” means all installments or similar recurring payments that Borrower may now or hereafter become obligated to pay to Bank pursuant to the terms and provisions of any instrument, or agreement now or hereafter in existence between Borrower and Bank.

“Permitted Indebtedness” means:

- (a) Indebtedness of Borrower in favor of Bank arising under this Agreement or any other Loan Document;
- (b) Indebtedness existing on the Closing Date and disclosed in the Schedule;
- (c) Indebtedness not otherwise described in clauses (a) and (b) above, secured by a lien described in clause (c) of the defined term “Permitted Liens,” provided (i) such Indebtedness does not exceed the lesser of the cost or fair market value of the equipment financed with such Indebtedness (measured at the time of such acquisition) and (ii) such Indebtedness does not exceed \$*** in the aggregate at any given time;
- (d) Subordinated Debt;
- (e) trade debt and operating leases incurred in the ordinary course of business;
- (f) Indebtedness in connection with insurance premium financing, credit cards or similar programs;
- (g) other unsecured Indebtedness not to exceed *** in the aggregate at any time; and
- (h) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness of the type described in clauses (a) through (g) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Borrower.

“Permitted Investment” means:

- (a) Investments existing on the Closing Date disclosed in the Schedule; and

(b) (i) marketable direct obligations issued or unconditionally guaranteed by the United States of America or any agency or any State thereof maturing within one (1) year from the date of acquisition thereof, (ii) commercial paper maturing no more than one (1) year from the date of creation thereof and currently having rating of at least A-2 or P-2 from either Standard & Poor's Corporation or Moody's Investors Service, (iii) certificates of deposit maturing no more than one (1) year from the date of investment therein issued by Bank, (iv) Bank's money market accounts, (v) Investments made by Borrower in the accounts maintained by Borrower with JP Morgan Chase Bank to the extent permitted by Section 6.8; and (vi) other Investments in an aggregate amount not to exceed \$*** outstanding at any time during the term of this Agreement.

"Permitted Liens" means the following:

(a) Any Liens existing on the Closing Date and disclosed in the Schedule or arising under this Agreement or the other Loan Documents;

(b) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings, provided that Borrower maintains adequate reserves on its books, and provided that no notice of any such Lien has been filed or recorded under the IRC;

(c) Liens (i) upon or in any equipment or fixed or capital assets which was not financed by Bank acquired or held by Borrower or any of its Subsidiaries to secure the purchase price of such equipment or indebtedness incurred solely for the purpose of financing the acquisition of such equipment or fixed or capital assets, or (ii) existing on such equipment or fixed or capital assets at the time of its acquisition, provided that the Lien is confined solely to the property so acquired and improvements thereon, and the proceeds of such equipment;

(d) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by Liens of the type described in clauses (a) through (c) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase;

(e) licenses of Intellectual Property granted to third parties in the ordinary course of business; and

(f) rental or licensing of Inventory or Equipment to third parties in the ordinary course of business.

"Person" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or governmental agency.

"Prime Rate" means the rate published as the U.S. Prime Rate from time to time in the money rate column of The Wall Street Journal, whether or not such announced rate is the lowest rate available from Bank.

"Responsible Officer" means each of the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the Controller of Borrower.

“Revolving Facility” means the facility under which Borrower may request Bank to issue Advances, as specified in Section 2.1(a) hereof.

“Revolving Line” means a credit extension of up to Twelve Million Dollars (\$12,000,000).

“Revolving Maturity Date” means the one-year anniversary of the Closing Date.

“Schedule” means the schedule of exceptions attached hereto and approved by Bank, if any.

“Shares” is one hundred percent (100%) of the issued and outstanding capital stock, membership units or other securities owned or held of record by a Borrower or any Subsidiary of Borrower, in any direct or indirect Subsidiary.

“Subordinated Debt” means any debt incurred by Borrower that is subordinated to the debt owing by Borrower to Bank on terms acceptable to Bank (and identified as being such by Borrower and Bank).

“Subsidiary” means, as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries (including any Affiliate), or both, by such Person. Unless the context otherwise requires, each reference to a Subsidiary herein shall be a reference to a Subsidiary of Borrower.

“Trademarks” means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

“Warrant” means the warrant to purchase common stock of the Borrower referred to in Section 3.1.

1.2 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP and all calculations made hereunder shall be made in accordance with GAAP. When used herein, the terms “financial statements” shall include the notes and schedules thereto.

2. LOAN AND TERMS OF PAYMENT.

2.1 Credit Extensions.

Borrower promises to pay to the order of Bank, in lawful money of the United States of America, the aggregate unpaid principal amount of all Credit Extensions made by Bank to Borrower hereunder. Borrower shall also pay interest on the unpaid principal amount of such Credit Extensions at rates in accordance with the terms hereof.

(a) Revolving Advances.

(i) Subject to and upon the terms and conditions of this Agreement, Borrower may request Advances in an aggregate outstanding amount not to exceed the lesser of (i) the Revolving Line or (ii) the Borrowing Base. Subject to the terms and conditions of this Agreement, amounts borrowed pursuant to this Section 2.1(a) may be repaid and reborrowed at any time prior to the Revolving Maturity Date, at which time all Advances under this Section 2.1(a) shall be immediately due and payable. Borrower may prepay any Advances without penalty or premium.

(ii) Whenever Borrower desires an Advance, Borrower will notify Bank by email, facsimile transmission or telephone no later than 2:00 p.m. Pacific Time, on the Business Day that is one day before the Business Day the Advance is to be made. Each such notification shall be promptly confirmed by a Borrowing Base Certificate in substantially the form of **Exhibit C** hereto, which may be accompanied by an Advance/Paydown Request in the form of **Exhibit B** hereto. Bank is authorized to make Advances under this Agreement, based upon instructions received from a Responsible Officer or a designee of a Responsible Officer, or without instructions if in Bank's discretion such Advances are necessary to meet Obligations which have become due and remain unpaid. Bank shall be entitled to rely on any email or telephonic notice given by a person who Bank reasonably believes to be a Responsible Officer or a designee thereof, and Borrower shall indemnify and hold Bank harmless for any damages or loss suffered by Bank as a result of such reliance. Bank will credit the amount of Advances made under this Section to Borrower's deposit account at Bank.

2.2 Overadvances. If the aggregate amount of the outstanding Advances exceeds the lesser of the Revolving Line or the Borrowing Base at any time, Borrower shall immediately pay to Bank, in cash, the amount of such excess.

2.3 Interest Rates, Payments, and Calculations.

(a) **Interest Rates.** Except as set forth in Section 2.3(b), the Advances shall bear interest, on the outstanding Daily Balance thereof, at a rate equal to two and one quarter of one percent (2.25%) above the Prime Rate.

(b) **Late Fee; Default Rate.** If any payment is not made within ten (10) days after the date such payment is due, Borrower shall pay Bank a late fee equal to the lesser of (i) five percent (5%) of the amount of such unpaid amount or (ii) the maximum amount permitted to be charged under applicable law. All Obligations shall bear interest, from and after the occurrence and during the continuance of an Event of Default, at a rate equal to five (5) percentage points above the interest rate applicable immediately prior to the occurrence of the Event of Default.

(c) **Payments.** Interest hereunder shall be due and payable on the first business day of each month during the term hereof. Bank shall, at its option, charge such interest, all Bank Expenses, and all Periodic Payments against any of Borrower's deposit accounts or against the Revolving Line, in which case those amounts shall thereafter accrue interest at the rate then applicable hereunder. Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder. All payments shall be free and clear of any taxes, withholdings, duties, impositions or other charges, to the end that Bank will receive the entire amount of any Obligations payable hereunder, regardless of source of payment.

(d) **Lockbox.** Borrower shall cause all account debtors (other than account debtors relating to License and Transaction Revenue and QuickStart Lease Receivables) to wire any amounts owing to Borrower to such account (the "Bancontrol Account") as Bank shall specify, and to mail all payments made by check to a post office box under Bank's control. All invoices shall specify such post office box as the payment address. Bank shall have sole authority to collect such payments and deposit them to the Bancontrol Account. If Borrower receives any amount despite such instructions, Borrower shall immediately deliver such payment to Bank in the form received, except for an endorsement to the order of Bank and, pending such delivery, shall hold such payment in trust for Bank. Funds from the Bancontrol Account shall be swept daily by Bank; two Business Days after clearance of any checks, Bank shall credit all amounts paid into the Bancontrol Account to Borrower's operating account. Borrower shall enter into such lockbox agreement as Bank shall reasonably request from time to time. Bank may, at its option, conduct a credit check of the account debtors relating to the License and Transaction Revenue requested by Borrower for inclusion in the Borrowing Base. Bank may also verify directly with the respective account debtors the validity, amount and other matters relating to the License and Transaction Revenue, and notify any account debtor of Bank's security interest in the Borrower's Accounts.

(e) **Computation.** In the event the Prime Rate is changed from time to time hereafter, the applicable rate of interest hereunder shall be increased or decreased, effective as of the day the Prime Rate is changed, by an amount equal to such change in the Prime Rate. All interest chargeable under the Loan Documents shall be computed on the basis of a three hundred sixty (360) day year for the actual number of days elapsed.

2.4 Crediting Payments. Prior to the occurrence of an Event of Default, Bank shall credit a wire transfer of funds, check or other item of payment to such deposit account or Obligation as Borrower specifies. After the occurrence of an Event of Default, the receipt by Bank of any wire transfer of funds, check, or other item of payment shall be immediately applied to conditionally reduce Obligations, but shall not be considered a payment on account unless such payment is of immediately available federal funds or unless and until such check or other item of payment is honored when presented for payment. Notwithstanding anything to the contrary contained herein, any wire transfer or payment received by Bank after 12:00 noon Pacific Time shall be deemed to have been received by Bank as of the opening of business on the immediately following Business Day. Whenever any payment to Bank under the Loan Documents would otherwise be due (except by reason of acceleration) on a date that is not a Business Day, such payment shall instead be due on the next Business Day, and additional fees or interest, as the case may be, shall accrue and be payable for the period of such extension.

2.5 Fees. Borrower shall pay to Bank the following:

(a) **Facility Fees.** On the Closing Date, a facility fee with respect to the Revolving Facility equal to \$90,000; and

(b) **Bank Expenses.** On the Closing Date, all Bank Expenses incurred through the Closing Date, including reasonable attorneys' fees and expenses and, after the Closing Date, all Bank Expenses, including reasonable attorneys' fees and expenses, as and when they are incurred by Bank.

2.6 Term. This Agreement shall become effective on the Closing Date and, subject to Section 12.7, shall continue in full force and effect for so long as any Obligations (other than inchoate indemnity obligations and any other obligations which, by their terms, are to survive the termination of this Agreement) remain outstanding or Bank has any obligation to make Credit Extensions under this Agreement. Notwithstanding the foregoing, Bank shall have the right to terminate its obligation to make Credit Extensions under this Agreement immediately and without notice upon the occurrence and during the continuance of an Event of Default. Notwithstanding termination, Bank's Lien on the Collateral shall remain in effect for so long as any Obligations (other than inchoate indemnity obligations and any other obligations which, by their terms, are to survive the termination of this Agreement) are outstanding, and shall be released and terminated by Bank immediately upon satisfaction of such Obligations. This Agreement may be terminated prior to the Revolving Maturity Date by Borrower effective two (2) Business Days after written notice of termination is given to Bank.

3. CONDITIONS OF LOANS.

3.1 Conditions Precedent to Initial Credit Extension. The obligation of Bank to make the initial Credit Extension is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, the following:

- (a) this Agreement;
- (b) a certificate of the Secretary of Borrower with respect to incumbency and resolutions authorizing the execution and delivery of this Agreement;
- (c) UCC National Form Financing Statement;
- (d) an intellectual property security agreement;
- (e) a warrant to purchase common stock of Borrower;
- (f) the Guaranty;
- (g) receipt of a payoff letter from AvidBank concerning outstanding Indebtedness of Borrower due to such bank; and evidence satisfactory to Bank in its sole determination that any Lien securing obligations of Borrower to AvidBank (or any successor thereto) will be terminated, concurrently with the making of the initial Credit Extension;
- (h) certificate(s) of insurance naming Bank as loss payee and additional insured;
- (i) payment of the fees and Bank Expenses then due specified in Section 2.5 hereof;
- (j) current financial statements of Borrower;
- (k) delivery of the share certificates representing the Shares and stock powers held by Borrower;
- (l) a deposit account control agreement satisfactory to Bank with respect to each of Borrower's accounts not with Bank;
- (m) an audit of the Collateral, the results of which shall be satisfactory to Bank;
- (n) establishment of the Bancontrol Account and lockbox arrangements; and
- (o) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

3.2 Conditions Precedent to all Credit Extensions. The obligation of Bank to make each Credit Extension, including the initial Credit Extension, is further subject to the following conditions:

- (a) timely receipt by Bank of the notice as provided in Section 2.1;

(b) the representations and warranties contained in Section 5 shall be true and correct in all material respects on and as of the date of Borrower's request for such Credit Extension and on the effective date of each Credit Extension as though made at and as of each such date, and no Event of Default shall have occurred and be continuing, or would exist after giving effect to such Credit Extension. The making of each Credit Extension shall be deemed to be a representation and warranty by Borrower on the date of such Credit Extension as to the accuracy of the representations and warranties contained in Section 5 in accordance with and subject to this Section 3.2(b); and

(c) in Bank's sole discretion, there has not been any material impairment in the Accounts, general affairs, management, results of operation, financial condition or the prospect of repayment of the Obligations, or there has not been any material adverse deviation by Borrower from the most recent business plan of Borrower presented to and accepted by Bank.

4. CREATION OF SECURITY INTEREST.

4.1 Grant of Security Interest. Borrower grants and pledges to Bank a continuing security interest in all presently existing and hereafter acquired or arising Collateral in order to secure prompt repayment of any and all Obligations and in order to secure prompt performance by Borrower of each of its covenants and duties under the Loan Documents. Such security interest constitutes a valid, first priority security interest in the presently existing Collateral, and will constitute a valid, first priority security interest in Collateral acquired after the date hereof.

4.2 Delivery of Additional Documentation Required. Borrower shall from time to time execute and deliver to Bank, at the request of Bank, all Negotiable Collateral, all financing statements and other documents that Bank may reasonably request, in form satisfactory to Bank, to perfect and continue the perfection of Bank's security interests in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Documents. Borrower from time to time may deposit with Bank specific time deposit accounts to secure specific Obligations. Borrower authorizes Bank to hold such balances in pledge and to decline to honor any drafts thereon or any request by Borrower or any other Person to pay or otherwise transfer any part of such balances for so long as the Obligations are outstanding.

4.3 Right to Inspect. Bank (through any of its officers, employees, or agents) shall have the right, upon reasonable prior notice, from time to time during Borrower's usual business hours but no more than twice a year (unless an Event of Default has occurred and is continuing), to inspect Borrower's Books and to make copies thereof and to check, test, and appraise the Collateral in order to verify Borrower's financial condition or the amount, condition of, or any other matter relating to, the Collateral.

4.4 Pledge of Shares. Borrower hereby pledges, assigns and grants to Bank, a security interest in all the Shares, together with all proceeds and substitutions thereof, all cash, stock and other moneys and property paid thereon, all rights to subscribe for securities declared or granted in connection therewith, and all other cash and noncash proceeds of the foregoing, as security for the performance of the Obligations. On the Closing Date, or, to the extent not certificated as of the Closing Date, within ten (10) days of the certification of any Shares, the certificate or certificates for the Shares will be delivered to Bank, accompanied by an instrument of assignment duly executed in blank by Borrower. To the extent required by the terms and conditions governing the Shares, Borrower shall cause the books of each entity whose Shares are part of the Collateral and any transfer agent to reflect the pledge of the Shares. Upon the occurrence of an Event of Default hereunder, Bank may effect the transfer of any securities included in the Collateral (including but not limited to the Shares) into the name of Bank and cause new (as applicable) certificates representing such securities to be issued in the name of Bank or its transferee. Borrower will execute and deliver such documents, and take or cause to be taken such actions, as Bank may reasonably request to perfect or continue the Shares. Unless an Event of Default shall have occurred and be continuing, Borrower shall be entitled to exercise any voting rights with respect to the Shares and to give consents, waivers and ratifications in respect thereof, provided that no vote shall be cast or consent, waiver or ratification given or action taken which would be inconsistent with any of the terms of this Agreement or which would constitute or create any violation of any of such terms. All such rights to vote and give consents, waivers and ratifications shall terminate upon the occurrence and continuance of an Event of Default.

5. REPRESENTATIONS AND WARRANTIES.

Borrower represents and warrants as follows:

5.1 Due Organization and Qualification. Borrower and each Subsidiary is a corporation duly existing under the laws of its state of incorporation and qualified and licensed to do business in any state in which the conduct of its business or its ownership of property requires that it be so qualified, except where the failure to so qualify or be licensed would not result in a Material Adverse Effect.

5.2 Due Authorization; No Conflict. The execution, delivery, and performance of the Loan Documents are within Borrower's powers, have been duly authorized, and are not in conflict with nor constitute a breach of any provision contained in Borrower's Articles of Incorporation or Bylaws, nor will they constitute a material default under any material agreement to which Borrower is a party or by which Borrower is bound. Borrower is not in material default under any material agreement to which it is a party or by which it is bound.

5.3 No Prior Encumbrances. Borrower has good and marketable title to its property, free and clear of Liens, except for Permitted Liens.

5.4 Bona Fide Accounts. The Accounts included in any Borrowing Base Certificate are bona fide existing obligations. As of the date of such Borrowing Base Certificate, Borrower has not received notice of actual or imminent Insolvency Proceeding of any account debtor for which the License and Transaction Revenue is included in any such Borrowing Base Certificate .

5.5 Merchantable Inventory. All Inventory is in all material respects of good and marketable quality, free from all material defects, except for Inventory for which adequate reserves have been made.

5.6 Intellectual Property. Borrower or its subsidiaries is the sole owner of the Intellectual Property, except for non-exclusive licenses granted by Borrower to its customers in the ordinary course of business. Each of the Patents is valid and enforceable, except where the failure to be so valid or enforceable would not result in a Material Adverse Effect, and no part of the Intellectual Property has been judged invalid or unenforceable, in whole or in part, and no claim has been made that any part of the Intellectual Property violates the rights of any third party, except where the failure to be so valid or enforceable or any such violation would not result in a Material Adverse Effect. Except as set forth in the Schedule, Borrower's rights as a licensee of intellectual property do not give rise to more than five percent (5%) of its gross revenue in any given month, including without limitation revenue derived from the sale, licensing, rendering or disposition of any product or service.

5.7 Name; Location of Chief Executive Office. Except as disclosed in the Schedule, Borrower has not done business under any name other than that specified on the signature page hereof; or, in the past five (5) years, changed its jurisdiction of formation, corporate structure, organizational type, or any organizational number assigned by its jurisdiction. The chief executive office of Borrower is located at the address indicated in Section 10 hereof or such other location of which Bank has been notified in accordance with Section 7.2. As of the Closing Date, all Borrower's Inventory and Equipment is located only at the location set forth in Section 10 hereof.

5.8 Litigation. Except as set forth in the Schedule or as may be reported to the Bank in accordance with Section 6.3(e), there are no material actions or material proceedings pending by or against Borrower or any Subsidiary before any court or administrative agency.

5.9 No Material Adverse Change in Financial Statements. All consolidated and consolidating financial statements related to Borrower and any Subsidiary that Bank has received from Borrower fairly present in all material respects Borrower's financial condition as of the date thereof and Borrower's consolidated and consolidating results of operations for the period then ended. There has not been a material adverse change in the consolidated or the consolidating financial condition of Borrower since the date of the most recent of such financial statements submitted to Bank.

5.10 Solvency, Payment of Debts. Borrower is solvent and able to pay its debts (including trade debts) as they mature.

5.11 Regulatory Compliance. Borrower and each Subsidiary have met the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA, and no event has occurred resulting from Borrower's failure to comply with ERISA that could result in Borrower's incurring any material liability. Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940. Borrower is not engaged principally, or as one of the important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations T and U of the Board of Governors of the Federal Reserve System). Borrower and each Subsidiary have complied with all the provisions of the Federal Fair Labor Standards Act. Borrower and each Subsidiary have not violated any material statutes, laws, ordinances or rules applicable to it which would result in a Material Adverse Effect.

5.12 Environmental Condition. None of Borrower's or any Subsidiary's properties or assets has ever been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous owners or operators, in the disposal of, or to produce, store, handle, treat, release, or transport, any hazardous waste or hazardous substance other than in accordance with applicable law; to the best of Borrower's knowledge, none of Borrower's properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a hazardous waste or hazardous substance disposal site, or a candidate for closure pursuant to any environmental protection statute; no lien arising under any environmental protection statute has attached to any revenues or to any real or personal property owned by Borrower or any Subsidiary; and neither Borrower nor any Subsidiary has received a summons, citation, notice, or directive from the Environmental Protection Agency or any other federal, state or other governmental agency concerning any action or omission by Borrower or any Subsidiary resulting in the releasing, or otherwise disposing of hazardous waste or hazardous substances into the environment.

5.13 Taxes. Borrower and each Subsidiary have filed or caused to be filed all material tax returns required to be filed, and have paid, or have made adequate provision for the payment of, all material taxes reflected therein.

5.14 Investments. Neither Borrower nor any Subsidiary owns any stock, partnership interest or other equity securities of any Person, except for Permitted Investments.

5.15 Government Consents. Borrower and each Subsidiary have obtained all material consents, approvals and authorizations of, made all material declarations or filings with, and given all material notices to, all governmental authorities that are necessary for the continued operation of Borrower's business as currently conducted.

5.16 Operating, Depository and Investment Accounts. Except as permitted by Section 6.8, none of Borrower's nor any Subsidiary's depository, operating, or investment account is maintained or invested with a Person other than Bank.

5.17 Shares. Borrower has full power and authority to create a first lien on the Shares and no disability or contractual obligation exists that would prohibit Borrower from pledging the Shares pursuant to this Agreement. There are no subscriptions, warrants, rights of first refusal or other restrictions on transfer relative to, or options exercisable with respect to the Shares. The Shares have been and will be duly authorized and validly issued, and are fully paid and non-assessable. The Shares are not the subject of any present or threatened suit, action, arbitration, administrative or other proceeding, and Borrower knows of no reasonable grounds for the institution of any such proceedings.

5.18 Full Disclosure. No representation, warranty or other statement made by Borrower in any certificate or written statement furnished to Bank contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained in such certificates or statements not misleading.

6. AFFIRMATIVE COVENANTS.

Borrower shall do all of the following:

6.1 Good Standing. Borrower shall maintain its and each of its Subsidiaries' corporate existence and good standing in its jurisdiction of incorporation and maintain qualification in each jurisdiction in which it is required under applicable law, except where the failure to so qualify would result in a Material Adverse Effect. Borrower shall maintain, and shall cause each of its Subsidiaries to maintain, in force all licenses, approvals and agreements, the loss of which would reasonably be expected to have a Material Adverse Effect.

6.2 Government Compliance. Borrower shall meet, and shall cause each Subsidiary to meet, the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. Borrower shall comply, and shall cause each Subsidiary to comply, with all statutes, laws, ordinances and government rules and regulations to which it is subject, noncompliance with which could have a Material Adverse Effect.

6.3 Financial Statements, Reports, Certificates. Borrower shall deliver the following to Bank:

(a) within twenty-five (25) days after the last day of each month, a Borrowing Base Certificate signed by a Responsible Officer in substantially the form of **Exhibit C** hereto, together with a report of accounts receivable and accounts payable aging;

(b) as soon as available, but in any event within fifty (50) days after the end of Borrower's fiscal quarter, a Borrower prepared consolidated balance sheet, income, and cash flow statement covering Borrower's consolidated operations during such quarter, prepared in accordance with GAAP, consistently applied, in a form acceptable to Bank, together with a churn report in form satisfactory to Bank, and a Compliance Certificate signed by a Responsible Officer in substantially the form of **Exhibit D** hereto;

(c) as soon as available, but in any event within one hundred twenty (120) days after the end of Borrower's fiscal year, audited consolidated financial statements of Borrower prepared in accordance with GAAP, consistently applied, together with an unqualified opinion on such financial statements of an independent certified public accounting firm reasonably acceptable to Bank;

(d) copies of all statements, reports and notices sent or made available generally by Borrower to its security holders or to any holders of Subordinated Debt and all reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission, within 5 days of filing;

(e) promptly upon receipt of notice thereof, a report of any legal actions pending or threatened against Borrower or any Subsidiary that could result in damages or costs to Borrower or any Subsidiary of *** Dollars (\$***) or more, or any commercial tort claim (as defined in the Code) acquired by Borrower;

(f) a copy of bank statements for any accounts not with Bank, within 30 days after the last day of each month; and

(g) such budgets, sales projections, operating plans, other financial information including information related to the verification of Borrower's Accounts as Bank may reasonably request from time to time.

6.4 Audits. Bank shall have a right from time to time hereafter to audit Borrower's Accounts and appraise Collateral at Borrower's expense, provided that such audits will be conducted no more often than every six (6) months unless an Event of Default has occurred and is continuing.

6.5 Inventory; Returns. Borrower shall keep all Inventory in good and marketable condition, free from all material defects except for Inventory for which adequate reserves have been made. Returns and allowances, if any, as between Borrower and its account debtors shall be on the same basis and in accordance with the usual customary practices of Borrower, as they exist at the time of the execution and delivery of this Agreement. Borrower shall promptly notify Bank of all returns and recoveries and of all disputes and claims, where the return, recovery, dispute or claim involves more than *** Dollars (\$***).

6.6 Taxes. Borrower shall make, and shall cause each Subsidiary to make, due and timely payment or deposit of all material federal, state, and local taxes, assessments, or contributions required of it by law, and will execute and deliver to Bank, on demand, appropriate certificates attesting to the payment or deposit thereof; and Borrower will make, and will cause each Subsidiary to make, timely payment or deposit of all material tax payments and withholding taxes required of it by applicable laws, including, but not limited to, those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Bank with proof satisfactory to Bank indicating that Borrower or a Subsidiary has made such payments or deposits; provided that Borrower or a Subsidiary need not make any payment if the amount or validity of such payment is contested in good faith by appropriate proceedings and is reserved against (to the extent required by GAAP) by Borrower.

6.7 Insurance.

(a) Borrower, at its expense, shall keep the Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as ordinarily insured against by other owners in similar businesses conducted in the locations where Borrower's business is conducted on the date hereof. Borrower shall also maintain insurance relating to Borrower's business, ownership and use of the Collateral in amounts and of a type that are customary to businesses similar to Borrower's.

(b) All such policies of insurance shall be in such form, with such companies, and in such amounts as are reasonably satisfactory to Bank. All such policies of property insurance shall contain a lender's loss payable endorsement, in a form satisfactory to Bank, showing Bank as an additional loss payee thereof, and all liability insurance policies shall show the Bank as an additional insured and shall specify that the insurer must give at least twenty (20) days notice to Bank before canceling its policy for any reason. Upon Bank's request, Borrower shall deliver to Bank certified copies of such policies of insurance and evidence of the payments of all premiums therefor. All proceeds payable under any such policy shall, at the option of Bank, be payable to Bank to be applied on account of the Obligations.

6.8 Operating, Depository and Investment Accounts. Borrower shall maintain and shall cause each of its Subsidiaries to maintain its primary depository, operating, and investment accounts with JP Morgan Chase Bank in accordance with its current practice provided each such account is subject to a Control Agreement in favor of Bank in form acceptable to Bank. For each other account that Borrower maintains outside of Bank, Borrower shall cause the applicable bank or financial institution at or with which any such account is maintained to execute and deliver an account control agreement or other appropriate instrument in form and substance satisfactory to Bank. Within forty-five (45) days of the Closing Date, Borrower will open an operating and Bancontrol account with Bank.

6.9 Financial Covenants.

(a) **Maximum Churn Rate.** Borrower's number of connections as at the end of each fiscal quarter shall not decrease (i) by more than five percent (5%) as compared to Borrower's number of connections as at the end of the immediately preceding fiscal quarter, or (ii) below *** connections.

(b) **Minimum Adjusted EBITDA.** Borrower shall maintain quarterly Adjusted EBITDA, as set forth below, tested quarterly:

<u>Quarterly Period ending</u>	<u>Minimum Adjusted EBITDA</u>
March 31, 2016	\$***
June 30, 2016	\$***
December 31, 2016	\$***
March 31, 2017	\$***

6.10 Intellectual Property Rights.

(a) Use commercially reasonable efforts to protect, defend and maintain the validity and enforceability of its Intellectual Property that is material to its business; (ii) promptly advise Bank in writing of material infringements of its Intellectual Property; and (iii) not allow any Intellectual Property material to Borrower's business to be abandoned, forfeited or dedicated to the public.

(b) Borrower shall promptly give Bank written notice of any applications or registrations of intellectual property rights filed with the United States Patent and Trademark Office, including the date of such filing and the registration or application numbers, if any. Borrower shall (i) give Bank not less than 30 days prior written notice of the filing of any applications or registrations with the United States Copyright Office, including the title of such intellectual property rights to be registered, as such title will appear on such applications or registrations, and the date such applications or registrations will be filed, and (ii) prior to the filing of any such applications or registrations, shall execute such documents as Bank may reasonably request for Bank to maintain its perfection in such intellectual property rights to be registered by Borrower, and upon the request of Bank, shall file such documents simultaneously with the filing of any such applications or registrations. Upon filing any such applications or registrations with the United States Copyright Office, Borrower shall promptly provide Bank with (i) a copy of such applications or registrations, without the exhibits, if any, thereto, (ii) evidence of the filing of any documents requested by Bank to be filed for Bank to maintain the perfection and priority of its security interest in such intellectual property rights, and (iii) the date of such filing.

(c) Bank may audit Borrower's Intellectual Property to confirm compliance with this Section, provided such audit may not occur more often than twice per year, unless an Event of Default has occurred and is continuing. Bank shall have the right, but not the obligation, to take, at Borrower's sole expense, any actions that Borrower is required under this Section to take but which Borrower fails to take, after 15 days' notice to Borrower. Borrower shall reimburse and indemnify Bank for all reasonable costs and reasonable expenses incurred in the reasonable exercise of its rights under this Section.

6.11 Further Assurances. At any time and from time to time Borrower shall execute and deliver such further instruments and take such further action as may reasonably be requested by Bank to effect the purposes of this Agreement.

6.12 Landlord Waivers. Borrower shall use commercially reasonable efforts to deliver to Bank landlord waivers in respect of the premises at 100 Deerfield Lane, Suite 140, Malvern, Pennsylvania, 3103 Phoenixville Pike, Malvern, Pennsylvania, and 309 SW Sixth Avenue, Suite 700, Portland, Oregon. In the event that Borrower, after the Closing Date, intends to add any new offices or business locations, then Borrower shall use commercially reasonable efforts to deliver to Bank a landlord waiver prior to the addition of any such new office or business location.

7. NEGATIVE COVENANTS.

Borrower will not do any of the following:

7.1 Dispositions. Convey, sell, lease, transfer or otherwise dispose of (collectively, a "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, other than: (i) Transfers of Inventory or Equipment in the ordinary course of business; (ii) Transfers of non-exclusive licenses and similar arrangements for the use of the assets or property of Borrower or its Subsidiaries in the ordinary course of business; or (iii) Transfers of worn-out or obsolete Equipment or Equipment no longer used in the business which was not financed by Bank.

7.2 Change in Business; Change in Control or Executive Office. Engage in any business, or permit any of its Subsidiaries to engage in any business, other than the businesses currently engaged in by Borrower and any business substantially similar or related thereto (or incidental thereto); experience a change in a Responsible Officer without providing Bank with notice of such change within five (5) days, or cease to conduct business in the manner conducted by Borrower as of the Closing Date; or suffer or permit a Change in Control; or without thirty (30) days prior written notification to Bank, relocate its chief executive office or state of incorporation or change its legal name; or without Bank's prior written consent, change the date on which its fiscal year ends.

7.3 Mergers or Acquisitions. Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with or into any other business organization, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person.

7.4 Indebtedness. Create, incur, guarantee, assume or be or remain liable with respect to any Indebtedness, or permit any Subsidiary so to do, other than Permitted Indebtedness.

7.5 Encumbrances. Create, incur, assume or suffer to exist any Lien with respect to any of its property, or assign or otherwise convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries so to do, except for Permitted Liens, or enter into any agreement with any Person other than Bank not to grant a security interest in, or otherwise encumber, any of its property, or permit any Subsidiary to do so.

7.6 Distributions. Pay any dividends or make any other distribution or payment on account of or in redemption, retirement or purchase of any capital stock, or permit any of its Subsidiaries to do so, except that Borrower may repurchase the stock of former employees pursuant to stock repurchase agreements as long as an Event of Default does not exist prior to such repurchase or would not exist after giving effect to such repurchase, and the aggregate amount of such repurchase does not exceed \$*** in any fiscal year, and Borrower may convert its preferred stock and any unpaid and accrued dividends thereon into common stock pursuant to its Articles of Incorporation, and Borrower may purchase or cancel shares of common stock of Borrower owned by its employees in satisfaction of withholding tax obligations relating to such employees.

7.7 Investments. Directly or indirectly acquire or own, or make any Investment in or to any Person, or permit any of its Subsidiaries so to do, other than Permitted Investments; or other than Permitted Investments, maintain or invest any of its Investment property with a Person other than Bank or permit any of its Subsidiaries to do so unless such Person has entered into an account control agreement with Bank in form and substance satisfactory to Bank; or suffer or permit any Subsidiary to be a party to, or be bound by, an agreement that restricts such Subsidiary from paying dividends or otherwise distributing property to Borrower.

7.8 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person, or except for any compensation arrangements with any Affiliate, including any compensation paid to the directors of Borrower.

7.9 Subordinated Debt. Make any payment in respect of any Subordinated Debt, or permit any of its Subsidiaries to make any such payment, except in compliance with the terms of such Subordinated Debt, or amend any provision contained in any documentation relating to the Subordinated Debt without Bank's prior written consent.

7.10 Inventory and Equipment. Store the Inventory or the Equipment with a bailee, warehouseman, or other third party unless the third party has been notified of Bank's security interest and Bank (a) has received an acknowledgment from the third party that it is holding or will hold the Inventory or Equipment for Bank's benefit or (b) is in pledge possession of the warehouse receipt, where negotiable, covering such Inventory or Equipment. Except upon ten (10) days prior written notice to Bank, store or maintain any Equipment or Inventory at a location other than the location set forth in Section 10 of this Agreement.

7.11 Compliance. Become an "investment company" or be controlled by an "investment company," within the meaning of the Investment Company Act of 1940, or become principally engaged in, or undertake as one of its important activities, the business of extending credit for the purpose of purchasing or carrying margin stock, or use the proceeds of any Credit Extension for such purpose. Fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur, fail to comply with the Federal Fair Labor Standards Act or violate any law or regulation, which violation could have a Material Adverse Effect, or a material adverse effect on the Collateral or the priority of Bank's Lien on the Collateral, or permit any of its Subsidiaries to do any of the foregoing.

8. EVENTS OF DEFAULT.

Any one or more of the following events shall constitute an Event of Default by Borrower under this Agreement:

8.1 Payment Default. If Borrower fails to pay, when due, any of the Obligations;

8.2 Covenant Default.

(a) If Borrower fails to perform any obligation under Section 6 or violates any of the covenants contained in Section 7 of this Agreement; or

(b) If Borrower fails or neglects to perform or observe any other material term, provision, condition, covenant contained in this Agreement, in any of the Loan Documents (other than the Warrant), or in any other present or future agreement between Borrower and Bank (other than the Warrant) and as to any default under such other term, provision, condition or covenant that can be cured, has failed to cure such default within ten days after Borrower receives notice thereof or any officer of Borrower becomes aware thereof; provided, however, that if the default cannot by its nature be cured within the ten day period or cannot after diligent attempts by Borrower be cured within such ten day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional reasonable period (which shall not in any case exceed 30 days) to attempt to cure such default, and within such reasonable time period the failure to have cured such default shall not be deemed an Event of Default but no Credit Extensions will be made.

8.3 Material Adverse Effect. If there occurs any circumstance or circumstances that would reasonably be expected to result in a Material Adverse Effect;

8.4 Attachment. If any material portion of Borrower's assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any trustee, receiver or person acting in a similar capacity and such attachment, seizure, writ or distress warrant or levy has not been removed, discharged or rescinded within twenty (20) days, or if Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs, or if a material judgment or other claim becomes a lien or encumbrance upon any portion of Borrower's assets, or if a notice of lien, levy, or assessment is filed of record with respect to any of Borrower's assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, and the same is not paid within twenty (20) days after Borrower receives notice thereof, provided that none of the foregoing shall constitute an Event of Default where such action or event is stayed or an adequate bond has been posted pending a good faith contest by Borrower (provided that no Credit Extensions will be required to be made prior to the stay or posting of bond);

8.5 Insolvency. If Borrower becomes insolvent, or if an Insolvency Proceeding is commenced by Borrower, or if an Insolvency Proceeding is commenced against Borrower and is not dismissed or stayed within thirty (30) days (provided that no Credit Extensions will be made prior to the dismissal of such Insolvency Proceeding);

8.6 Other Agreements. If there is a default or other failure to perform in any agreement to which Borrower is a party or by which it is bound resulting in a right by a third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount in excess of *** Dollars (\$***) or which would have a Material Adverse Effect;

8.7 Subordinated Debt. If Borrower makes any payment on account of Subordinated Debt, except to the extent the payment is allowed under any subordination agreement entered into with Bank;

8.8 Judgments. If a judgment or judgments for the payment of money in an amount, individually or in the aggregate, of at least *** Dollars (\$***) shall be rendered against Borrower and shall remain unsatisfied and unstayed for a period of twenty (20) days (provided that no Credit Extensions will be made prior to the satisfaction or stay of such judgment); or

8.9 Misrepresentations. If any material misrepresentation or material misstatement exists now or hereafter in any warranty or representation set forth herein or in any certificate delivered to Bank by any Responsible Officer pursuant to this Agreement or to induce Bank to enter into this Agreement or any other Loan Document; or

8.10 Guaranty. If any guaranty of all or a portion of the Obligations (a "Guaranty") ceases for any reason to be in full force and effect, or any guarantor fails to perform any obligation under any Guaranty or a security agreement securing any Guaranty (collectively, the "Guaranty Documents"), or any event of default occurs under any Guaranty Document or any guarantor revokes or purports to revoke a Guaranty, or any material misrepresentation or material misstatement exists now or hereafter in any warranty or representation set forth in any Guaranty Document or in any certificate delivered to Bank in connection with any Guaranty Document, or if any of the circumstances described in Sections 8.3 through 8.8 occur with respect to any guarantor or any guarantor dies or becomes subject to any criminal prosecution.

9. BANK'S RIGHTS AND REMEDIES.

9.1 Rights and Remedies. Upon the occurrence and during the continuance of an Event of Default, Bank may, at its election, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrower:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable (provided that upon the occurrence of an Event of Default described in Section 8.5, all Obligations shall become immediately due and payable without any action by Bank);

(b) Cease advancing money or extending credit to or for the benefit of Borrower under this Agreement;

(c) Make such payments and do such acts as Bank considers necessary or reasonable to protect its security interest in the Collateral. Borrower agrees to assemble the Collateral if Bank so requires, and to make the Collateral available to Bank as Bank may designate. Borrower authorizes Bank to enter the premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or lien which in Bank's determination appears to be prior or superior to its security interest and to pay all expenses incurred in connection therewith. With respect to any of Borrower's owned premises, Borrower hereby grants Bank a license to enter into possession of such premises and to occupy the same, without charge, in order to exercise any of Bank's rights or remedies provided herein, at law, in equity, or otherwise;

(d) Set off and apply to the Obligations any and all (i) balances and deposits of Borrower held by Bank, or (ii) indebtedness at any time owing to or for the credit or the account of Borrower held by Bank;

(e) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Bank is hereby granted a license or other right, solely pursuant to the provisions of this Section 9.1, to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section 9.1, Borrower's rights under all licenses and all franchise agreements shall inure to Bank's benefit;

(f) Dispose of the Collateral by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrower's premises) as Bank determines is commercially reasonable, and apply any proceeds to the Obligations in whatever manner or order Bank deems appropriate;

(g) Bank may credit bid and purchase at any public sale; and

(h) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Borrower.

9.2 Power of Attorney. Effective only upon the occurrence and during the continuance of an Event of Default, Borrower hereby irrevocably appoints Bank (and any of Bank's designated officers, or employees) as Borrower's true and lawful attorney to:(a) send requests for verification of Accounts or notify account debtors of Bank's security interest in the Accounts; (b) notify all account debtors with respect to the Accounts to pay Bank directly; (c) sign Borrower's name on any invoice or bill of lading relating to any Account, drafts against account debtors, schedules and assignments of Accounts, verifications of Accounts, and notices to account debtors; (d) make, settle, and adjust all claims under and decisions with respect to Borrower's policies of insurance; (e) demand, collect, receive, sue, and give releases to any account debtor for the monies due or which may become due upon or with respect to the Accounts and to compromise, prosecute, or defend any action, claim, case or proceeding relating to the Accounts; (f) settle and adjust disputes and claims respecting the accounts directly with account debtors, for amounts and upon terms which Bank determines to be reasonable; (g) sell, assign, transfer, pledge, compromise, discharge or otherwise dispose of any Collateral; (h) receive and open all mail addressed to Borrower for the purpose of collecting the Accounts; (i) endorse Borrower's name on any checks or other forms of payment or security that may come into Bank's possession; (j) execute on behalf of Borrower any and all instruments, documents, financing statements and the like to perfect Bank's interests in the Accounts and file, in its sole discretion, one or more financing or continuation statements and amendments thereto, relative to any of the Collateral; and (k) do all acts and things necessary or expedient, in furtherance of any such purposes; provided however Bank may exercise such power of attorney with respect to any actions described in clause (j) above, regardless of whether an Event of Default has occurred. The appointment of Bank as Borrower's attorney in fact, and each and every one of Bank's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations (other than inchoate indemnity obligations and any other obligations which, by their terms, are to survive the termination of this Agreement) have been fully repaid and performed and Bank's obligation to provide Credit Extensions hereunder is terminated.

9.3 Accounts Collection. In addition to the foregoing, at any time after the occurrence of an Event of Default, Bank may notify any Person owing funds to Borrower of Bank's security interest in such funds and verify the amount of such Account. Borrower shall collect all amounts owing to Borrower for Bank, receive in trust all payments as Bank's trustee, and immediately deliver such payments to Bank in their original form as received from the account debtor, with proper endorsements for deposit.

9.4 Bank Expenses. If Borrower fails to pay any amounts or furnish any required proof of payment due to third persons or entities, as required under the terms of this Agreement, then Bank may do any or all of the following after reasonable notice to Borrower: (a) make payment of the same or any part thereof; (b) set up such reserves under a loan facility in Section 2.1 as Bank deems necessary to protect Bank from the exposure created by such failure; or (c) obtain and maintain insurance policies of the type discussed in Section 6.7 of this Agreement, and take any action with respect to such policies as Bank deems prudent. Any amounts so paid or deposited by Bank shall constitute Bank Expenses, shall be immediately due and payable, and shall bear interest at the then applicable rate hereinabove provided, and shall be secured by the Collateral. Any payments made by Bank shall not constitute an agreement by Bank to make similar payments in the future or a waiver by Bank of any Event of Default under this Agreement.

9.5 Bank's Liability for Collateral. So long as Bank complies with reasonable banking practices, Bank shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other person whomsoever. All risk of loss, damage or destruction of the Collateral shall be borne by Borrower.

9.6 Shares. Borrower recognizes that Bank may be unable to effect a public sale of any or all the Shares, by reason of certain prohibitions contained in federal securities laws and applicable state and provincial securities laws or otherwise, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. Borrower acknowledges and agrees that any such private sale may result in prices and other terms less favorable than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner. Bank shall be under no obligation to delay a sale of any of the Shares for the period of time necessary to permit the issuer thereof to register such securities for public sale under federal securities laws or under applicable state and provincial securities laws, even if such issuer would agree to do so. Upon the occurrence of an Event of Default which continues, Bank shall have the right to exercise all such rights as a secured party under the Code as it, in its sole judgment, shall deem necessary or appropriate, including without limitation the right to liquidate the Shares and apply the proceeds thereof to reduce the Obligations. Effective only upon the occurrence and during the continuance of an Event of Default, Borrower hereby irrevocably appoints Bank (and any of Bank's designated officers, or employees) as such Borrower's true and lawful attorney to enforce such Borrower's rights against any Subsidiary, including the right to compel any Subsidiary to make payments or distributions owing to such Borrower.

9.7 Remedies Cumulative. Bank's rights and remedies under this Agreement, the Loan Documents, and all other agreements shall be cumulative. Bank shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by Bank of one right or remedy shall be deemed an election, and no waiver by Bank of any Event of Default on Borrower's part shall be deemed a continuing waiver. No delay by Bank shall constitute a waiver, election, or acquiescence by it. No waiver by Bank shall be effective unless made in a written document signed on behalf of Bank and then shall be effective only in the specific instance and for the specific purpose for which it was given.

9.8 Demand; Protest. Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by Bank on which Borrower may in any way be liable.

10. NOTICES.

Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other agreement entered into in connection herewith shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid, and except for the Warrant) shall be personally delivered or sent by a recognized overnight delivery service, certified mail, postage prepaid, return receipt requested, or by email or telefacsimile to Borrower or to Bank, as the case may be, at its addresses set forth below:

If to Borrower: USA TECHNOLOGIES, INC.
100 Deerfield Lane, Suite 140
Malvern, PA 19355
Attn: Chief Financial Officer

Email: lmaxwell@usatech.com

If to Bank: HERITAGE BANK OF COMMERCE
150 South Almaden Blvd.
San Jose, California 95113
Attn: Mike Hansen
FAX: (408) 947-6910
Email: Mike.Hansen@herbank.com

The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other.

11. CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER.

This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of California, without regard to principles of conflicts of law. Each of Borrower and Bank hereby submits to the jurisdiction of the state and Federal courts located in the County of Santa Clara, State of California. BORROWER AND BANK EACH HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS (OTHER THAN THE WARRANT) OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. EACH PARTY RECOGNIZES AND AGREES THAT THE FOREGOING WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR IT TO ENTER INTO THIS AGREEMENT. EACH PARTY REPRESENTS AND WARRANTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

If the jury waiver set forth in this Section is not enforceable, then any dispute, controversy or claim arising out of or relating to this Agreement, the Loan Documents (other than the Warrant) or any of the transactions contemplated therein shall be settled by judicial reference pursuant to Code of Civil Procedure Section 638 et seq. before a referee sitting without a jury, such referee to be mutually acceptable to the parties or, if no agreement is reached, by a referee appointed by the Presiding Judge of the California Superior Court for Santa Clara County. This Section shall not restrict a party from exercising remedies under the Code or from exercising pre-judgment remedies under applicable law.

12. GENERAL PROVISIONS.

12.1 Successors and Assigns. This Agreement shall bind and inure to the benefit of the respective successors and permitted assigns of each of the parties; provided, however, that neither this Agreement nor any rights hereunder may be assigned by Borrower without Bank's prior written consent, which consent may be granted or withheld in Bank's sole discretion. Bank shall have the right without the consent of or notice to Borrower to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits hereunder.

12.2 Indemnification. Borrower shall defend, indemnify and hold harmless Bank and its officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other party in connection with the transactions contemplated by this Agreement (other than the Warrant); and (b) all losses or Bank Expenses in any way suffered, incurred, or paid by Bank as a result of or in any way arising out of, following, or consequential to transactions between Bank and Borrower whether under this Agreement, or otherwise (including without limitation reasonable attorneys' fees and expenses) other than the Warrant, except for losses caused by Bank's gross negligence or willful misconduct.

12.3 Time of Essence. Time is of the essence for the performance of all obligations set forth in this Agreement.

12.4 Severability of Provisions. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

12.5 Amendments in Writing, Integration. Neither this Agreement nor the Loan Documents can be amended or terminated orally. All prior agreements, understandings, representations, warranties, and negotiations between the parties hereto with respect to the subject matter of this Agreement and the Loan Documents, if any, are merged into this Agreement and the Loan Documents.

12.6 Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. In the event that any signature to this Agreement or any other Loan Document is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page were an original thereof. Notwithstanding the foregoing, Borrower shall deliver all original signed documents requested by Bank no later than ten (10) Business Days following the Closing Date.

12.7 Survival. All covenants, representations and warranties made in this Agreement shall continue in full force and effect so long as any Obligations (other than inchoate indemnity obligations and any other obligations which, by their terms, are to survive the termination of this Agreement) remain outstanding or Bank has any obligation to make Credit Extensions to Borrower. The obligations of Borrower to indemnify Bank with respect to the expenses, damages, losses, costs and liabilities described in Section 12.2 shall survive until all applicable statute of limitations periods with respect to actions that may be brought against Bank have run.

12.8 Confidentiality. In handling any confidential information Bank and all employees and agents of Bank, including but not limited to accountants, shall exercise the same degree of care that it exercises with respect to its own proprietary information of the same types to maintain the confidentiality of any non-public information thereby received or received pursuant to this Agreement except that disclosure of such information may be made (i) to the subsidiaries or affiliates of Bank in connection with their present or prospective business relations with Borrower, (ii) to prospective transferees or purchasers of any interest in the loans, provided that they are similarly bound by confidentiality obligations, (iii) as required by law, regulations, rule or order, subpoena, judicial order or similar order, (iv) as may be required in connection with the examination, audit or similar investigation of Bank and (v) as Bank may determine in connection with the enforcement of any remedies hereunder. Confidential information hereunder shall not include information that either: (a) is in the public domain or in the knowledge or possession of Bank when disclosed to Bank, or becomes part of the public domain after disclosure to Bank through no fault of Bank; or (b) is disclosed to Bank by a third party, provided Bank does not have actual knowledge that such third party is prohibited from disclosing such information.

12.9 Patriot Act Notice. Bank hereby notifies Borrower that, pursuant to the requirements of the USA Patriot Act, Title III of Pub. L. 107-56 (signed into law on October 26, 2001) (the "Patriot Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes names and addresses and other information that will allow Bank, as applicable, to identify the Borrower in accordance with the Patriot Act.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

USA TECHNOLOGIES, INC.

By: /s/ Stephen P. Herbert

Name: Stephen P. Herbert

Title: Chairman and Chief Executive Officer

HERITAGE BANK OF COMMERCE

By: /s/ Karla Schrader

Name: Karla Schrader

Title: VP

DEBTOR: USA TECHNOLOGIES, INC.

SECURED PARTY: HERITAGE BANK OF COMMERCE

EXHIBIT A

**COLLATERAL DESCRIPTION ATTACHMENT
TO LOAN AND SECURITY AGREEMENT**

All personal property of Borrower (herein referred to as "Borrower" or "Debtor") whether presently existing or hereafter created or acquired, and wherever located, including, but not limited to:

(a) all accounts (including health-care-insurance receivables), chattel paper (including tangible and electronic chattel paper), commercial tort claims, deposit accounts, securities accounts, documents (including negotiable documents), equipment (including all accessions and additions thereto), general intangibles (including payment intangibles and software), goods (including fixtures), instruments (including promissory notes), inventory (including all goods held for sale or lease or to be furnished under a contract of service, and including returns and repossessions), investment property (including securities and securities entitlements), letter of credit rights, money, and all of Debtor's books and records with respect to any of the foregoing, and the computers and equipment containing said books and records;

(b) any and all cash proceeds and/or noncash proceeds of any of the foregoing, including, without limitation, insurance proceeds, and all supporting obligations and the security therefor or for any right to payment.

All terms above have the meanings given to them in the California Uniform Commercial Code, as amended or supplemented from time to time.

Notwithstanding the foregoing, the term "Collateral" shall not include any Equipment not financed by Bank, proceeds of such Equipment, or any rights of Borrower as a licensee to the extent the granting of a security interest therein (i) would be contrary to applicable law or (ii) is prohibited by or would constitute a default under any agreement or document governing such property (but only to the extent such prohibition is enforceable under applicable law); provided that upon the termination or lapsing of any such prohibition, such property shall automatically be part of the Collateral; and provided further that the provisions of this paragraph shall in no case exclude from the definition of "Collateral" any Accounts, proceeds of the disposition of any property, or general intangibles consisting of rights to payment, all of which shall at all times constitute "Collateral"; and provided further that any Equipment financed by Bank will at all times constitute "Collateral".

Exhibit B
ADVANCE/PAYDOWN FORM



Loan Advance / Payment Request Form

FAX to Corporate Finance Division (408) 947-6910 or Email to: ABL@HERBANK.COM

The Deadline for an Advance Request is 11:00 AM

Client Name: _____ Date: _____ Time: _____
 Requested By: _____ (Authorized Signature) _____ (Print Name)
 Received from Client By: Telephone Email In Person Fax

Advances	Payments
Amount Requested: _____	<input type="checkbox"/> Principal Reduction <input type="checkbox"/> Regular Payment
Loan #: _____	<input type="checkbox"/> Regular Payment Plus Extra to Principal
Credit Account: _____	Amount Requested: _____
Other: _____	Loan #: _____
Comments: _____	Debit Account: _____
	Other: _____

Below For Bank Use Only

Revolving - Formula A/R LOC	Compliance Status:
Borrowing Base <small>(Net L/C Hold if applicable)</small> : _____	Maturity: _____
Current Loan Balance: _____	Risk Grade: _____
Less Advance requested: _____	Reports: <input type="checkbox"/> OK <input type="checkbox"/> In Violation (See Comments)
Less Other: _____	Covenant: <input type="checkbox"/> OK <input type="checkbox"/> In Violation (See Comments)
Net Available Balance: _____	Number of Advances with Violations per month (Circle One) 1 2 3 4 5 6 7+
	Frozen: <input type="checkbox"/> Yes - Requires Credit Admin Approval <input type="checkbox"/> No
Comments: _____	

Approvals For Funding: Block #: _____ LSS Initial: _____

Compliance Credit Analyst _____ (Signature)

Account Officer _____ (Signature)

Regional Manager/Team Lead _____ (Signature)

Credit Administration _____ (Signature)

Revised 7.30.13

EXHIBIT C

BORROWING BASE CERTIFICATE

Borrower: USA TECHNOLOGIES, INC. Lender: HERITAGE BANK OF COMMERCE
Commitment Amount: \$ 12,000,000 Loan #:

Period: _____

LICENSE AND TRANSACTION REVENUE

1 License and Transaction Revenue for preceding three months \$0
2 Advance Rate 85%

BORROWING BASE

3 Borrowing Base (#1 multiplied by #2) \$0

BALANCES

4 Maximum Loan Amount \$
5 **Total Borrowing Capacity (lesser of #3 and #4)** \$0
6 Less: Present Balance owing on Line of Credit \$0
7 **Remaining Availability (#5 minus #6)** \$0

If line #7 is a negative number, this amount must be remitted to the Bank immediately to bring loan balance into compliance. By signing this form you authorize Bank to deduct any advance amounts directly from the company's checking account at HERITAGE BANK OF COMMERCE in the event there is an overadvance.

The undersigned represents and warrants that the foregoing is true, complete and correct, and that the information reflected in this Borrowing Base Certificate complies with the representations and warranties set forth in the Loan and Security Agreement between the undersigned and HERITAGE BANK OF COMMERCE.

Borrower hereby requests funding in the amount of _____ in accordance with this Borrowing Base Certificate. All representations and warranties of Borrower stated in the Loan and Security Agreement are true, correct, and complete in all material respects as of the date of this Borrowing Base Certificate; provided that those representations and warranties expressly referring to another date shall be true, correct, and complete in all material respects as of such date.

By (Authorized Signer): _____ Title: _____ Date: _____

Reviewed by Bank: _____ Title: _____ Date: _____

Bank Use Only:

Borrowing	BBC status:	BBC expired - Do not Fund
Base Update:		
Date of BBC:	Total Borrowing Capacity:	Reviewed by: -
BBC expiration date:	Outstanding Balance:	Approved by:
Current date:	Remaining Availability:	Posted by:

Loan Advance:		Loan Payment:	
Reporting in Compliance?	Yes / No	Type of Payment:	Overadvance / Per client's request
Covenant in Compliance?	Yes / No		
<i>If out of Compliance, what is the violation?</i>			
Outstanding Loan Balance:	\$0	Outstanding Loan Balance:	\$0
Amount of Advance: (Must be equal or less than BBC Availability)	\$0	Amount of Payment:	\$0
Loan Account #:	New	Loan Account #:	New
Deposit to		Account to be charged:	
DDA: Acct #: _____	\$0	Acct #: _____	\$0
New Outstanding Loan Balance:	\$0	New Outstanding Loan Balance:	\$0

**EXHIBIT D
COMPLIANCE CERTIFICATE**

TO: HERITAGE BANK OF COMMERCE
FROM: USA TECHNOLOGIES, INC.

The undersigned authorized officer of USA TECHNOLOGIES, INC. hereby certifies that in accordance with the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"), (i) Borrower is in complete compliance for the period ending _____ with all required covenants except as noted below and (ii) all representations and warranties of Borrower stated in the Agreement are true and correct in all material respects as of the date hereof; provided that those representations and warranties expressly referring to another date shall be true, correct, and complete in all material respects as of such date. Attached herewith are the required documents supporting the above certification. The Officer further certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are consistently applied from one period to the next except as explained in an accompanying letter or footnotes.

Please indicate compliance status by circling Yes/No under "Complies" column.

<u>Reporting Covenant</u>	<u>Required</u>	<u>Complies</u>	
Borrowing Base Certificate	Monthly within 25 days of month end	Yes	No
Quarterly financial statements with churn report and Compliance Certificate	Quarterly within 50 days of quarter end	Yes	No
Annual financial statements (CPA Audited) 10K and 10Q	FYE within 120 days	Yes	No
A/R Audit	Within 5 days of filing	Yes	No
IP Notices	Semi-annually	Yes	No
	As required under Section 6.10	Yes	No

<u>Financial Covenant</u>	<u>Required</u>	<u>Actual</u>	<u>Complies</u>	
Maximum Churn	5% / *** min. connections	_____	Yes	No
Minimum Adjusted EBITDA	See Section 6.9(b)	_____	Yes	No

Comments Regarding Exceptions: See Attached.

Sincerely,

SIGNATURE

TITLE

DATE

BANK USE ONLY	
Received by: _____	AUTHORIZED SIGNER
Date: _____	
Verified: _____	AUTHORIZED SIGNER
Date: _____	
Compliance Status	Yes No

SCHEDULE OF EXCEPTIONS

Permitted Indebtedness (Section 1.1)

Permitted Investments (Section 1.1)

Permitted Liens (Section 1.1)

Inbound Licenses (Section 5.6)

Prior Names (Section 5.7)

Litigation (Section 5.8)

Subsidiaries (Section 5.14)

Operating, Depository and Investment Accounts (Section 5.16)

USA TECHNOLOGIES, INC.
Heritage Bank of Commerce – Loan and Security Agreement

Schedule of Exceptions

The following Schedules are being delivered by USA Technologies, Inc., a Pennsylvania corporation (“Borrower” or the “Company”), to Heritage Bank of Commerce pursuant to that certain Loan and Security Agreement (the “Agreement”) dated March 29, 2016 by and between Borrower and Bank. All capitalized terms used but not herein defined shall have the respective meanings given to them in the Agreement.

For purposes of convenience, the Schedules have been separately titled and correspond to the sections of the Agreement, where applicable. Any disclosure in one Schedule may apply to and qualify disclosures made in one or more other Schedules to the extent that it is reasonably apparent that such disclosures apply to or qualify other Schedules, notwithstanding the omission of an appropriate cross reference to such other Schedule.

Matters reflected herein may not necessarily be limited to matters strictly required by the Agreement to be reflected in these Schedules. To the extent that any such additional matters are included, they are included solely for informational purposes, and shall not be deemed in any way to expand any of the information required to be disclosed in these Schedules or under the Agreement or to imply that other information with respect to similar matters must be disclosed.

The inclusion of any item in these Schedules shall not constitute an admission by the Borrower that such item is material or that a violation, right of termination, consent requirement, default, liability or contractual obligation of any kind exists with respect to such item. These Schedules are qualified in their entirety by reference to the specific provisions of the Agreement and the representations and warranties to which the disclosures herein pertain and are not intended to constitute, and shall not be construed as constituting, any separate representation or warranty of the Borrower, except as and to the extent expressly provided in these Schedules or the Agreement.

Schedule 1.1-A
Permitted Indebtedness

	Type	Detail	Balance as of 2/29/2016
1.	Debt Obligation	Contingent debt obligation established as part of the QuickStart Sale Agreement entered into by USAT and Uninvest Capital, Inc.	\$***
2.	Debt Obligation	Contingent debt obligation established as part of the QuickStart Sale Agreement entered into by USAT and Time Payment Corporation	\$***
3.	Loan	Directors' & Officers' insurance	\$***
4.	Capital Lease	Firewall appliances with software	\$***
5.	Capital Lease	B&W and color copier	\$***
6.	Capital Lease	New office furniture	\$***
7.	Capital Lease	4 New Dell servers	\$***
8.	Capital Lease	New copier	\$***
9.	Capital Lease	Network equipment	\$***
10.	Capital Lease	DDI - Oracle Equipment-Schedule B	\$***
11.	Capital Lease	DDI - Oracle Equipment - Schedule D	\$***
12.	Capital Lease	DDI - Oracle Equipment - Schedule C	\$***
13.	Sale/Leaseback	Operating lease - monthly payments totaling \$220,096.29 through June 2017	

Schedule 1.1 – B
Permitted Investments

1. Stitch Networks Corporation, a Delaware corporation, a wholly owned subsidiary of the Borrower
 2. USAT Capital Corp, LLC, a Pennsylvania limited liability company, a wholly owned subsidiary of the Borrower
 3. Pursuant to a Master Agreement for Sale and Assignment of Equipment Leases by and between USA Technologies, Inc. and Univest Capital, Inc. (“Univest”) dated May 19, 2015 (the “Master Agreement”), Univest has been holding an amount equal to ****% of the aggregate present value of Non-Recourse Leases (as defined in the Master Agreement), up to a maximum of \$***, as a cash loss reserve in a Cash Holdback Account (as defined in the Master Agreement), in the name of USA Technologies, Inc. and governed by a Blocked Account Agreement. The Senior Managers of Univest are the sole authorized signers on the Cash Holdback Account, and the cash in the Cash Holdback Account will be used by Univest to repurchase, at any time prior to May 19, 2017, any Non-Recourse Leases under which the lessee has defaulted under the terms and conditions of the underlying lease.
-

Schedule 1.1 – C
Permitted Liens

	Parties	Financing Statement No.	Date, Expiration, Collateral
1.	Western Equipment Finance, Inc.	2015073106092	Filed: 7/29/15 Expires: 7/29/20
2.	UniFi Equipment Finance Inc. (Orig: Presidio Technology Capital, LLC)	2014110503036 (Assigned) 2014102906888 (Orig)	Assigned: 10/31/14 Original: 10/29/14 Expires: 10/29/19
3.	Presidential Bank, FSB (Orig: Varilease Finance, Inc.)	2014090406390 (Assigned) 2014082803811 (Orig amended) 2014081308199 (Orig)	Assigned: 9/4/14 Original amended: 8/26/14 Original: 8/13/14 Expires: 8/13/19
4.	Prime Alliance Bank, Inc. (Orig: VFI-SPV VIII, Corp.)	2014072406742 (Assigned) 2014061105943 (Orig)	Assigned: 7/24/14 Original: 6/11/14 Expires: 6/11/19
5.	Bank of Birmingham (Orig: VFI-SPV VIII, Corp.)	2014081901856 (Amended) 2014072307754 (Assigned) 2014060609015 (Orig)	Amended: 8/15/14 Assigned: 7/23/14 Original: 6/6/14 Expires: 6/6/19
6.	Sterling National Bank (Assignee 1: Republic Bank, Inc.) (Orig: VFI-SPV VIII, Corp.)	2014081901882 (Amended) 2014081404422 (Assigned) 2014072405764 (Assigned) 2014060608936 (Orig)	Amended: 8/15/14 Assigned (2): 8/14/14 Assigned (1): 7/24/14 Original: 6/6/14 Expires: 6/6/19
7.	VFI KR SPE I LLC (Orig: VFI-SPV VIII, Corp.)	2014062407879 (Assigned) 2014060608873 (Orig)	Assigned: 6/24/14 Original: 6/6/14 Expires: 6/6/19
8.	VFI KR SPE I LLC (Orig: VFI-SPV VIII, Corp.)	2014062407855 (Assigned) 2014060607643 (Orig)	Assigned: 6/24/14 Original: 6/6/14 Expires: 6/6/19
9.	Macquarie Equipment Finance, Inc.	2014021205810 (Orig)	Original: 2/12/14 Expires: 2/12/19
10.	Banc of America Leasing & Capital, LLC (Orig: Oracle Credit Corporation)	2013032607039 (Assigned) 2013012305580 (Orig)	Assigned: 3/26/13 Original: 1/23/13 Expires: 1/23/18
11.	Banc of America Leasing & Capital, LLC (Orig: Oracle Credit Corporation)	2012021503616 (Assigned) 2011110306258 (Orig)	Assigned: 2/15/12 Original: 11/3/11 Expires: 11/3/16
12.	Dell Financial Services L.L.C.	2011063004616 (Orig)	Original: 6/30/11 Expires: 6/30/16

Schedule 5.6
Inbound Licenses

None.

Schedule 5.7
Prior Names

USA Entertainment Center Inc.

Schedule 5.8

Litigation

1. Action by and against Universal Clearing Solutions, LLC

On January 26, 2015, Universal Clearing Solutions, LLC (“Universal Clearing”), a former non-vending customer of the Company, filed a complaint against the Company in the United States District Court for the District of Arizona. On April 10, 2015, Universal Clearing filed an amended complaint, and on June 19, 2015, Universal Clearing filed a second amended complaint, which alleged causes of action against the Company for breach of contract, breach of fiduciary duty, and defamation. On July 24, 2015, the Company filed an answer to the defamation count of the complaint denying the allegations, and filed a motion to dismiss the remaining counts. On January 29, 2016, the Court granted the Company's motion, and dismissed the breach of contract and breach of fiduciary duty claims against the Company. The Company does not believe that the remaining defamation count of the complaint has merit or represents a material legal proceeding, and intends to vigorously defend against the claim.

On July 24, 2015, the Company filed a counterclaim against Universal Clearing seeking damages of approximately \$680,000 which were incurred by the Company in connection with chargebacks relating to Universal Clearing's sub-merchants which had been boarded on the Company's service. The counterclaim alleges that Universal Clearing is responsible under the agreement for these chargebacks, and Universal Clearing misrepresented to the Company the business practices and other matters relating to these sub-merchants. On August 17, 2015, Universal Clearing filed an answer to the counterclaim denying that it was responsible for the chargebacks or had made any misrepresentations.

On August 7, 2015, the Company filed a third party complaint in the pending action against Steven Juliver, the manager of Universal Clearing, as well as against Universal Tranware, LLC, and Secureswype, LLC, entities affiliated with Universal Clearing. The third-party complaint sets forth, among other things, causes of action for fraud and breach of contract, and seeks to recover from these defendants the chargebacks relating to Universal Clearing's sub-merchants described above. On September 14, 2015, the third party defendants filed a motion to dismiss the third party complaint and on January 29, 2016, the court denied the motion to dismiss the fraud and breach of contract claims. The Company intends to vigorously pursue its claims for damages set forth in the counterclaim and third party complaint.

2. Complaint by Steven P. Messner

On October 1, 2015, a purported class action complaint was filed in the United States District Court for the Eastern District of Pennsylvania by Steven P. Messner, individually and on behalf of all others similarly situated, against the Company and its executive officers, alleging violations under the Securities Exchange Act of 1934. The lawsuit was filed on behalf of a purported class of investors who purchased or otherwise acquired securities of the Company between September 29, 2014 through September 29, 2015. The complaint alleges that the defendants made materially false and misleading statements, relating to, among other things, the failure to identify a large number of doubtful small balance accounts. The complaint seeks certification as a class action and unspecified damages including attorneys' fees and other costs. On December 15, 2015, the court appointed a lead plaintiff, and on January 18, 2016, the plaintiff filed an amended complaint that set forth the same causes of action and requested substantially the same relief as the original complaint. On February 1, 2016, the Company filed a motion to dismiss the amended complaint alleging, among other things, the amended complaint does not satisfy the applicable pleading standards under the Private Securities Litigation Reform Act. The Court has not yet ruled on the motion to dismiss. Although the ultimate outcome of litigation cannot be predicted with certainty, the Company believes that this lawsuit is without merit and intends to vigorously defend against the action.

Schedule 5.14

Subsidiaries

1. Stitch Networks Corporation, a Delaware corporation
 2. USAT Capital Corp, LLC, a Pennsylvania limited liability company
-

Schedule 5.16

Operating, Depository and Investment Accounts

<u>Institution</u>	<u>Account #</u>
JPMorgan Chase Bank PO Box 659754 San Antonio, TX 78265-9754	***
JPMorgan Chase Bank Royal Bank Plaza, South Tower 200 Bay Street, Suite 1800 Toronto, Ontario Canada	***
Univest Bank and Trust 14 North Main Street P.O. Box 197 Souderton, PA 18964	***
AvidBank P.O. Box 1730 Palo Alto, CA 94302-1730	***

INTELLECTUAL PROPERTY SECURITY AGREEMENT

This Intellectual Property Security Agreement is entered into as of March 29, 2016 by and between HERITAGE BANK OF COMMERCE, a California corporation (“Bank”) and USA TECHNOLOGIES, INC. (“Borrower”).

RECITALS

Bank has agreed to make certain advances of money and to extend certain financial accommodations to Borrower under that certain Loan and Security Agreement by and between Bank and Borrower dated of even date herewith (as amended from time to time, the “Loan Agreement”). Capitalized terms used herein are used as defined in the Loan Agreement. Pursuant to the terms of the Loan Agreement, Borrower has granted to Bank a security interest in the Collateral.

NOW, THEREFORE, Borrower agrees as follows:

AGREEMENT

To secure its Obligations under the Loan Agreement, Borrower grants to Bank a security interest in all of Borrower’s right, title and interest in, its Intellectual Property (including without limitation those Copyrights, Patents and Trademarks listed on Schedules A, B and C hereto) and all proceeds thereof (such as, by way of example but not by way of limitation, license royalties and proceeds of infringement suits), the right to sue for past, present and future infringements, all rights corresponding thereto throughout the world and all re-issues, divisions, continuations, renewals, extensions and continuations-in-part thereof. Borrower represents and warrants that Schedules A, B and C attached hereto set forth any and all Intellectual Property in connection to which Borrower has registered or filed an application with either the United States Patent and Trademark Office or the United States Copyright Office, as applicable. Bank shall release and terminate its security interest in Borrower’s Intellectual Property upon satisfaction of Borrower’s Obligations (other than inchoate indemnity obligations and any other obligations which, by their terms, are to survive the termination of the Loan Agreement), and shall execute and deliver such further instruments and take such further action as may reasonably be requested by Borrower to effect the release and termination of such security interest and to re-vest in Borrower the full title to the Intellectual Property. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have caused this Intellectual Property Security Agreement to be duly executed by its officers thereunto duly authorized as of the first date written above.

Address of Borrower:

100 Deerfield Lane, Suite 140
Malvern, PA 19355
Attn: Chief Financial Officer
Fax: 610-989-0344
Email: lmaxwell@usatech.com

BORROWER:
USA TECHNOLOGIES, INC.

By: /s/ Stephen P. Herbert
Name: Stephen P. Herbert
Title: Chairman and Chief Executive Officer

Address of Bank:

150 South Almaden Blvd.
San Jose, CA 95113
Attn: Mike Hansen
Fax: (408) 947-6910
Email: Mike.Hansen@herbank.com

BANK:

HERITAGE BANK OF COMMERCE

By: /s/ Karla Schrader
Name: Karla Schrader
Title: VP

SCHEDULE A

Copyrights

If None, check this box:

SCHEDULE B

Patents

Description	Patent / Application Number
An in-vehicle device for wirelessly connecting a vehicle to the internet and for transacting e-commerce and e-business	6,856,820
Apparatus and methods for monitoring and communicating with a plurality of networked vending machines	5,844,808
Apparatus, system, and methods for retrofitting vending systems with wireless communication	Serial #: 14/681,463
Card reader assembly	7,690,495
Cashless vending transaction management by a vend assist mode of operation	7,693,602
Cashless vending transaction management by a vend assist mode of operation	7,076,329
Cashless vending system with tethered payment interface	7,464,867
Communicating interactive digital content between vehicles and internet based data processing resources for the purpose of transacting e-commerce or conducting e-business	6,615,186
Communication interface device for managing wireless data transmission between a vehicle and the internet	7,003,289
Credit and bank issued debit card operated system and method for controlling a prepaid card encoding/dispensing machine	5,637,845 (Expired)
Credit and bank issued debit card operated system and method for controlling a vending machine	6,152,365 (Expired)
Credit card and bank issued debit card operated system and method for controlling and monitoring access of computer and copy equipment	5,619,024 (Expired)
Credit card, smart card and bank issued debit card operated system and method for processing electronic transactions	6,119,934 (Expired)
Dataport	D423,474 (Expired)
Devices and Methods for Providing Cashless Payment and Diagnostics for Vending Machines	8,373,558
Dynamic identification interchange method for exchanging one form of identification for another	6,754,641
Electronic commerce terminal enclosure	D428,047 (Expired)
Electronic commerce terminal enclosure with brackets	D441,401 (Expired)
Electronic commerce terminal enclosure for a vending machine	D428,444 (Expired)
Electronic commerce terminal enclosure for a vending machine	D437,890 (Expired)
External power management device with current monitoring precluding shutdown during high current	6,243,626

Laptop data port enclosure	D415,742 (Expired)
MDB transaction string effectuated cashless vending	7,131,575
Method and Apparatus for Conserving Power Consumed by a Refrigerated Appliance Utilizing Audio Signal Detection	7,286,907
Method and apparatus for conserving power consumed by a vending machine utilizing audio signal detection	7,856,289
Method and Apparatus for Power Management Control of a Compressor-Based Appliance that Reduces Electrical Power Consumption of an Appliance	6,975,926
Method and Apparatus for Power Management Control of a Compressor-Based Appliance that Reduces Electrical Power Consumption of an Appliance	7,200,467
Method of constructing a digital content play list for transmission and presentation on a public access electronic terminal	7,805,338
Method of transacting an electronic mail, an electronic commerce, and an electronic business transaction by an electronic commerce terminal operated on a transportation vehicle	6,622,124
Method to obtain customer specific data for public access electronic commerce services	6,606,605
Mounting bracket for mounting a cashless payment terminal to a vending machine	D480,948
Paper guide for a point of sale terminal	D475,750
Point of Sale Terminal Mountable on a Vending Machine	D543,588
Power-conservation system for computer peripherals	5,477,476 (Expired)
Power conservation system based on indoor/outdoor and ambient-light determination	6,801,836
Printer bracket for point of sale terminal	D475,414
Printer bracket for point of sale terminal	D476,036
Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode	6,389,822
Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode	6,581,396
Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode	6,898,942
Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode	6,931,869
Sign holder	D418,878 (Expired)
System and method for networking and controlling vending machines	6,056,194 (Expired)
System and method for networking and controlling vending machines	6,321,985 (Expired)
System for Providing Remote Audit, Cashless Payment, and Interactive Transaction Capabilities in a Vending Machine	6,505,095

Systems and methods for sending information to mobile devices utilizing mobile device identifiers	Serial #: 14/681,294
Systems and methods for wireless authorization of transactions with mobile payment devices	Serial #: 14/499,796
Transacting E-commerce and Conducting E-business Related to Identifying and Procuring Automotive Service and Vehicle Replacement Parts	6,389,337
Transceiver base unit	D478,577
Unattended retail systems, methods and devices for linking payments, loyalty, and rewards	9,245,269
Universal interactive advertising and payment system for public access electronic commerce and business related products and services	6,609,102
Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	6,604,085
Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	6,601,038
Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	6,601,037
Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	6,611,810
Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	6,604,086
Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	6,601,039
Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	6,606,602
Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	6,615,183
Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	6,604,087
Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	6,601,040
Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	6,609,103

Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	6,629,080
Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	7,089,209
Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	6,643,623
Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	6,684,197
Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	6,807,532
Universal interactive advertising and payment system network for public access electronic commerce and business related products and services	6,763,336
User interface bracket for a point of sale terminal	D475,751
User interface bracket for a point of sale terminal	D476,037
Vehicle related wireless scientific instrumentation telematics	6,895,310
Vehicle related wireless scientific instrumentation telematics	6,853,894
Vending approval systems, methods, and apparatus using card readers	9,159,182
Vending interface controller	D727,428
Vending machine cashless payment terminal	D477,030
Vending machine nutritional information display system using standard inventory control system components	8,788,341
Vending machine nutritional information display system using standard inventory control system components	8,583,280
Wireless system for communicating cashless vending transaction data and vending machine audit data to remote locations	7,593,897
Wireless system for communicating cashless vending transaction data and vending machine audit data to remote locations	7,865,430
Wireless system for communicating cashless vending transaction data and vending machine audit data to remote locations	7,630,939
Wireless system for communicating cashless vending transaction data and vending machine audit data to remote locations	8,596,529
Wireless system for communicating cashless vending transaction data and vending machine audit data to remote locations	Serial #: 14/071,021
Wireless Vehicle Diagnostics Device and Method with Service and Part Determination Capabilities (as amended)	7,502,672

SCHEDULE C

Trademarks

Description	Serial / Registration Number	Application / Registration Date
BLUELIGHT SEQUENCE	3352247	12/11/2007
ENERGYMISER	3424496	5/6/2008
SNACKMISER	2920610	1/25/2005
CM2IQ	3130829	8/15/2006
VM2IQ	3130828	8/15/2006
VENDINGMISER	2628447	10/1/2002
EPORT	77948652	3/2/2010
	(Abandoned)	
	(Dead)	
PAYDOT	77597651	10/22/2008
	(Abandoned)	
	(Dead)	
EPORT EDGE	3764912	3/23/2010
CREATING VALUE THROUGH	4139315	5/8/2012
EPORT CONNECT	3462181	7/8/2008
USALIVE	2845393	5/25/2004
E-PORT	2724498	6/10/2003
E-PORT	2700645	3/25/2003
THE OFFICE THAT NEVER SLEEPS	2552992	3/23/1999
	(Cancelled)	
	(Dead)	
TRANSACT	2598187	7/23/2002
PC EXPRESS	2520390	12/18/2001
USA TECHNOLOGIES	2020215	12/3/1996
BLUELIGHT SEQUENCE	85907829	4/18/2013
BUSINESS EXPRESS	2234770	3/23/1999
EPORT	86070271	9/20/2013
EPORT GO	4513884	4/15/2014
EPORT MOBILE	4542131	6/3/2014
EPORT MOBILE & DESIGN	4713726	3/31/2015
ESUDS	4354183	6/18/2013
INTELLIGENT VENDING	3641380	6/16/2009
QUICK CONNECT	86068891	9/19/2013
	(Abandoned)	
	(Dead)	
USA TECHNOLOGIES	4903734	2/23/2016
USA TECHNOLOGIES	4903756	2/23/2016
VENDSCREEN	4716736	4/7/2015
VENDSCREEN	4827283	10/6/2015

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

**FIFTEENTH AMENDMENT
TO
LOAN AND SECURITY AGREEMENT**

This Fifteenth Amendment to Loan and Security Agreement is entered into as of January 15, 2016 (the “Amendment”), by and between AVIDBANK CORPORATE FINANCE, a division of AVIDBANK (“Bank”), and USA TECHNOLOGIES, INC. (“Borrower”).

RECITALS

A. Borrower and Bank are parties to that certain Loan and Security Agreement dated as of June 21, 2012 and that certain First Amendment to Loan and Security Agreement dated as of January 1, 2013, that certain Second Amendment to Loan & Security Agreement dated as of April 2, 2013, that certain Third Amendment to Loan and Security Agreement dated as of April 11, 2013, that certain Fourth Amendment to Loan and Security Agreement dated as of April 29, 2013, that certain Fifth Amendment to Loan and Security Agreement dated as of September 26, 2013, that certain Sixth Amendment to Loan and Security Agreement dated as of May 15, 2014, that certain Seventh Amendment to Loan and Security Agreement dated as of June 17, 2014, that certain Eighth Amendment to Loan and Security Agreement dated as of June 30, 2014, that certain Ninth Amendment to Loan and Security Agreement dated as of September 30, 2014, that certain Tenth Amendment to Loan and Security Agreement dated as of April 17, 2015, that certain Eleventh Amendment to Loan and Security Agreement dated as of May 19, 2015, that certain Twelfth Amendment to Loan and Security Agreement dated as of June 18, 2015, certain Thirteenth Amendment to Loan and Security Agreement dated as of July 31, 2015 and certain Fourteenth Amendment to Loan and Security Agreement dated as of August 14, 2015 (collectively, the “Agreement”). Borrower and Bank desire to amend the Agreement in accordance with the terms set forth herein.

B. Borrower has also informed Bank that it intends to acquire substantially all of the assets of Vendscreen, Inc. (“Seller”) on substantially similar terms and conditions set forth in the Asset Purchase Agreement between Borrower, Seller and the other parties named therein attached hereto as Exhibit A (the “Proposed Transaction”). Borrowers have requested that Bank consent to the Proposed Transaction, and Bank has agreed to provide its consent with respect to the Proposed Transaction, in accordance with the terms set forth herein.

AGREEMENT

NOW, THEREFORE, the parties agree as follows:

1. Notwithstanding the prohibition set forth in Section 7.7 of the Loan Agreement and subject to and upon the terms and conditions hereof, Bank consents to the Proposed Transaction. Borrower (i) represents and warrants that the assets being acquired from Seller (the "Assets") shall be free and clear of any Liens and Borrower shall provide evidence to Bank that the Lien on the Assets in favor of 3X5 Special Opportunity Fund, L.P. has been terminated as of the closing of the Proposed Transaction; (ii) acknowledges and agrees upon consummation of the Proposed Transaction, the Assets shall automatically constitute Collateral under the Loan Agreement; (iii) authorizes Bank to file any financing statements in such jurisdictions and offices as the Bank deems necessary in connection with the perfection of a security interest in such Collateral.

2. The foregoing consent from Bank is conditioned upon the following: Borrower shall (x) within one (1) Business Day of execution, deliver to Bank the fully executed copy of the Asset Purchase Agreement with respect to the Proposed Transaction, together with all schedules, exhibits and ancillary documents entered into in connection therewith, which shall be in form and substance substantially similar to Exhibit A attached hereto, without any material deviation, (y) within thirty (30) days following the closing of the Proposed Transaction, deliver to Bank its annual operating projections (including income statements, balance sheets and cash flow statements presented in a monthly format) for 2016, in form and substance reasonably satisfactory to Bank; and (z) promptly (within one (1) Business Day) of the consummation of the Proposed Transaction, execute and deliver to Bank a short form intellectual property security agreement with respect to the intellectual property (including all patents, trademarks and copyrights) acquired from Seller. Failure to timely comply with any of the foregoing shall constitute an immediate Event of Default to which no cure period applies.

3. The following definitions are hereby added to Section 1.1 of the Agreement:

"Debt Service Coverage Ratio" means, as of the end of each quarter (the "Measurement Period"), the product of (i) Adjusted EBITDA divided by (ii) the interest owing on the Revolving Facility and Term Loan during the Measurement Period plus the scheduled principal payments on the Term Loan during the Measurement Period.

"VendScreen Asset Purchase" means Borrower's acquisition of the assets of Vendscreen, Inc. pursuant to that certain Asset Purchase Agreement between Borrower and Vendscreen, Inc.

4. The following definitions in Section 1.1 of the Agreement are amended and restated in their entirety to read as follows:

"Adjusted EBITDA" means net income (loss) before interest income, interest expense, income taxes, depreciation, amortization, rent/lease expense pursuant to sale/leaseback equipment transaction that occurred in 2014, and change in fair value of warrant liabilities and stock-based compensation expense, and the one-time costs and expenses incurred or accrued by Borrower in connection with the VendScreen Asset Purchase.

"Credit Extension" means each Advance, the Term Loan, or any other extension of credit by Bank for the benefit of Borrower hereunder.

"Revolving Line" means, as of any measurement date, a credit extension of up to Seven Million Five Hundred Thousand Dollars (\$7,500,000) less the then outstanding principal amount of the Term Loan.

5. The following is added as a new subsection (b) following the end of Section 2.1(a) of the Agreement:

(b) Term Loan.

(i) Subject to and upon the terms and conditions of this Agreement, Bank agrees to make a single term loan cash advance to Borrower (the "Term Loan") in an aggregate principal amount of Three Million Dollars (\$3,000,000). The Term Loan shall be made to Borrower on or prior to the closing of the VendScreen Asset Purchase (the "Funding Date"), and the proceeds of the Term Loan shall be used to repay an Advance of \$3,000,000 currently outstanding under the Revolving Facility drawn in December 2015 to finance the VendScreen Asset Purchase.

(ii) Interest shall accrue from the Funding Date at the rate specified in Section 2.3, and shall be payable monthly on the tenth day of each month so long as the Term Loan is outstanding, beginning with the tenth day of the first month following the Funding Date. Beginning on the tenth day of the first month following the first anniversary of the Funding Date and continuing on the tenth day of each month thereafter for a period of twenty three (23) months, Borrower shall make equal monthly payments of principal based on a five year (i.e. 60 month) amortization schedule. On the tenth day of the twenty fourth (24th) month following the first anniversary of the Funding Date (the "Term Loan Maturity Date"), all amounts owing with respect to the Term Loan, including all outstanding principal, accrued interest, and Bank Expenses, shall be immediately due and payable.

(iii) Borrower shall have the option to prepay any or all of the Term Loan made by Bank under this Agreement without penalty or premium.

(iv) When Borrower desires the Term Loan to be made, Borrower will notify Bank no later than 3:00 p.m. Pacific Time, on the Business Day that is at least one day prior to the date the Term Loan is requested to be made. Each such notification shall be made by delivering to Bank a request form in substantially the form of Exhibit B-1 attached hereto. Bank is authorized to make Term Loan under this Agreement, based upon instructions received from a Responsible Officer or a designee of a Responsible Officer; and Bank shall be entitled to rely on any notice given by a person who Bank reasonably believes to be a Responsible Officer or a designee thereof, and Borrower shall indemnify and hold Bank harmless for any damages or loss suffered by Bank as a result of such reliance.

6. The following is added to the end of Section 2.3(a):

Except as set forth in Section 2.3(b), the Term Loan shall bear interest, on the outstanding Daily Balance thereof, at a rate equal to 1.75% above the Prime Rate; provided however that in no event shall the applicable interest rate be less than five percent (5.0%).

7. The first two sentences in Section 2.3(c) are amended and restated in their entirety to read as follows:

Accrued interest with respect to the Revolving Facility shall be due and payable in arrears on the first business day of each month during the term hereof. The minimum interest payable with respect to the Revolving Facility for each six month period, measured beginning with the period ending six months from the Closing Date, and for each successive six month period thereafter, shall be Twenty Thousand Dollars (\$20,000).

8. The following is added as a new Section 6.14 to the end of Section 6 of the Agreement:

6.14 Minimum Debt Service Coverage Ratio. Borrower shall achieve a minimum Debt Service Coverage Ratio of at least *******, measured on a quarterly basis.

9. The Exhibit B-1 attached hereto is incorporated in its entirety as Exhibit B-1 to the Agreement.

8. Exhibits C and D to the Agreement is replaced in its entirety with Exhibits C and D attached hereto.

9. Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remain in full force and effect in accordance with its respective terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof. Borrower ratifies and reaffirms the continuing effectiveness of all agreements entered into in connection with the Agreement.

10. Borrower represents and warrants that the representations and warranties contained in the Agreement are true and correct as of the date of this Amendment, and that no Event of Default has occurred and is continuing.

11. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page were an original hereof. Notwithstanding the foregoing, Borrower shall deliver all original signed documents no later than ten (10) Business Days following the date of execution.

12. As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:

- (a) this Amendment, duly executed by Borrower;
- (b) corporate resolution and incumbency certificate;
- (c) affirmation of guarantees; and

- (d) payment of a facility fee in the amount of \$30,000 with respect to the Term Loan, plus a prorated facility fee with respect to the Revolving Facility in the amount of \$1,667, plus all Bank Expenses incurred by Bank through the date hereof.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

USA TECHNOLOGIES, INC.

By: /s/ Stephen P. Herbert

Name: Stephen P. Herbert

Title: Chief Executive Officer

AVIDBANK CORPORATE FINANCE,
a division of AVIDBANK

By: /s/ Jeffrey Javier

Name: Jeffrey Javier

Title: SVP, Head of Business Development

EXHIBIT A
ASSET PURCHASE AGREEMENT

**EXHIBIT B-1
TERM LOAN REQUEST FORM**

Date: _____

Borrower: USA TECHNOLOGIES, INC.

Client ID: _____

The undersigned hereby request a Term Loan in the amount of \$3,000,000 in accordance with the terms set forth in the Loan and Security Agreement between the Borrower and Bank.

The undersigned also requests that the proceeds of the Term Loan are to be applied to repay outstanding Advances under the Revolving Facility.

The undersigned represents and warrants, on behalf of Borrower that the foregoing is true, complete and correct in all material respects, and that the information reflected in this certificate complies with the representations and warranties set forth in the Loan and Security Agreement between the Borrower and Bank.

BORROWER:

USA Technologies, Inc.

By: _____
Authorized Signor

Print Name: _____

Title: _____

Bank Use Only	
Received by:	Date:
_____ AUTHORIZED SIGNER	_____
Approved by:	Date:
_____ AUTHORIZED SIGNER	_____

**EXHIBIT C
BORROWING BASE CERTIFICATE**

Borrower: USA TECHNOLOGIES, INC.

Lender: Avidbank Corporate Finance,
a division of Avidbank

Commitment Amount: \$7,500,000

REVENUES FROM NON-INVOICED ACCOUNTS RECEIVABLES

1.	Prior three-months networking service fees/transaction processing revenues	\$ _____
2.	Adjustments to Revenues, if any	\$ _____
3.	Total Processing Revenues (#1 minus #2)	\$ _____
4.	Loan Value of Processing Revenues (80% of #3)	\$ _____

BALANCES

5.	Maximum Loan Amount	\$7,500,000
6.	Total Funds Available [Lesser of #4 or (#5)]	\$ _____
7.	Present balance owing on Revolving Line	\$ _____
8.	Present balance owing on Term Loan	\$ _____
9.	AVAILABLE BORROWING / RESERVE POSITION (#6 minus #7 minus #8)	\$ _____

The undersigned represents and warrants that the foregoing is true, complete and correct, and that the information reflected in this Borrowing Base Certificate complies with the representations and warranties set forth in the Loan and Security Agreement between the undersigned and Avidbank Corporate Finance, a division of Avidbank.

USA TECHNOLOGIES, INC.

By: _____
Authorized Signer

**EXHIBIT D
COMPLIANCE CERTIFICATE**

TO: AVIDBANK CORPORATE FINANCE, A DIVISION OF AVIDBANK
FROM: USA TECHNOLOGIES, INC.

The undersigned authorized officer of USA TECHNOLOGIES, INC. hereby certifies that in accordance with the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"), (i) Borrower is in complete compliance for the period ending _____ with all required covenants except as noted below and (ii) all representations and warranties of Borrower stated in the Agreement are true and correct as of the date hereof. Attached herewith are the required documents supporting the above certification. The officer further certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are consistently applied from one period to the next except as explained in an accompanying letter or footnotes.

Please indicate compliance status by circling Yes/No under "Complies" column.

Reporting Covenant	Required	Complies	
Schedule of Revenue Proceeds	Weekly	Yes	No
Transaction Report of Cash Disbursements & Collections	Weekly	Yes	No
Trailing 3 months revenue report	Monthly within 20 days	Yes	No
A/R & A/P Agings	Monthly within 20 days	Yes	No
Borrowing Base Certificate and Compliance Certificate	Monthly within 20 days	Yes	No
Monthly statements from JPMorgan Chase	Monthly within 5 days of receipt	Yes	No
Monthly bank statements from Univest Bank and Trust Co.	Monthly within 20 days of receipt	Yes	No
Monthly financial statements	Monthly within 20 days	Yes	No
Annual Projections	Within 30 days of fiscal year beginning	Yes	No
Quarterly financial statements (Form 10Q)	Quarterly within 45 days	Yes	No
Annual financial statements (CPA Audited; Form 10K)	FYE within 120 days	Yes	No
A/R Audit	Semi-Annual	Yes	No
IP Notices	As required under Section 6.11	Yes	No
Financial Covenant	Required	Actual	Complies
RML for month ended _____		\$ _____	Yes No
When RML is negative, Minimum Liquidity of at least:	6 months RML	\$ _____	Yes No
When RML is positive, ratio of Current Assets to Current Liabilities of at least:	1.00 to 1.00	_____ : 1.00	Yes No
Minimum Adjusted EBITDA for quarters ending:			
December 31, 2015	\$***	\$ _____	Yes No
March 31, 2016:	\$***	\$ _____	Yes No
June 30, 2016:	\$***	\$ _____	Yes No
Minimum Quarterly Debt Service Coverage Ratio:	***	_____ : ***	Yes No

Comments Regarding Exceptions: See Attached.

Sincerely,

SIGNATURE

TITLE

DATE

BANK USE ONLY		
Received by:	_____	
	AUTHORIZED SIGNER	
Date:	_____	
Verified:	_____	
	AUTHORIZED SIGNER	
Date:	_____	
Compliance Status	Yes	No

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

I, Stephen P. Herbert, certify that:

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

Date: May 12, 2016

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

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

I, Leland P. Maxwell, certify that:

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

Date: May 12, 2016

/s/ Leland P. Maxwell

Leland P. Maxwell
Interim Chief Financial Officer

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

In connection with the accompanying Quarterly Report of USA Technologies, Inc., (the "Company") on Form 10-Q for the period ended March 31, 2016 (the "Report"), I, Stephen P. Herbert., Chief Executive Officer of the Company, hereby certify that to my knowledge:

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

Date: May 12, 2016

/s/ Stephen P. Herbert

Stephen P. Herbert
Chief Executive Officer

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

In connection with the accompanying Quarterly Report of USA Technologies, Inc., (the "Company") on Form 10-Q for the period ended March 31, 2016 (the "Report"), I, Leland P. Maxwell, Interim Chief Financial Officer of the Company, hereby certify that to my knowledge:

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

Date: May 12, 2016

/s/ Leland P. Maxwell

Leland P. Maxwell
Interim Chief Financial Officer
