U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 1O-QSB

(Mark One)

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

For the quarterly period ended March 31, 2001

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

For the transition period from ____________________ to _____________________

Commission file number 33-70992

USA Technologies, Inc.

(Exact name of small business issuer as specified in its charter)

Pennsylvania	23-2679963
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer Identification No.)
200 Plant Avenue, Wayne, Pennsylvania	19087
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, area code first. (610)-989-0340

Check whether the Registrant has (1) 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 X No

As of May 11, 2001, there were 19,765,867 shares of Common Stock, no par value, outstanding.

USA TECHNOLOGIES, INC.

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USA Technologies, Inc.
Consolidated Balance Sheets

	March 31, 2001 (Unaudited)	June 30, 2000
Assets		
Current assets:		
Cash and cash equivalents	$ 301,271	$ 1,859,360
Accounts receivable, less allowance for uncollectible accounts of $82,000 at March 31, 2001 (unaudited) and $50,000 at June 30, 2000	223,448	603,171
Inventory	1,169,920	992,980
Prepaid expenses and other current assets	265,094	300,607
Deposits	--	192,000
Subscriptions receivable	60,000	12,199
Total current assets	2,019,733	3,960,317
Property and equipment, net of accumulated depreciation of $603,426 at March 31, 2001 (unaudited) and $465,704 at June 30, 2000	667,488	384,847
Software development costs	1,709,815	149,304
Other assets	64,017	14,740
Total assets	$ 4,461,053	$ 4,509,208
Liabilities and shareholders' deficit		
Current liabilities:		
Accounts payable	$ 1,937,517	$ 1,194,391
Accrued expenses	943,130	554,243
Equipment line of credit	52,350	183,196
Senior Notes	205,613	--
Current obligations under capital leases	67,038	9,493
Total current liabilities	3,205,648	1,941,323
Senior Notes	4,379,727	2,688,402
Obligations under capital leases, less current portion	72,521	34,965
Total liabilities	7,657,896	4,664,690
Shareholders' deficit:		
Preferred Stock, no par value:		
Series A Convertible Preferred:		
Authorized shares - 1,800,000; issued and outstanding shares - 551,284 at March 31, 2001 (unaudited) and 566,444 at June 30, 2000 (liquidation preference of $ 10,100,990 at March 31, 2001 - unaudited)	3,904,933	4,012,266
Common Stock, no par value:		
Authorized shares - 62,000,000		
Issued and outstanding shares - 18,185,150 at March 31, 2001 (unaudited) and 13,375,291 at June 30, 2000	29,207,109	24,204,050
Deferred compensation	(128,750)	(206,000)
Subscriptions receivable	(1,667,500)	--
Accumulated deficit	(34,512,635)	(28,165,798)
Total shareholders' deficit	(3,196,843)	(155,482)
Total liabilities and shareholders' deficit	$ 4,461,053	$ 4,509,208

See accompanying notes.

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

	Three months ended March 31, 2001	Three months ended March 31, 2000	Nine months ended March 31, 2001	Nine months ended March 31, 2000
Revenues:				
Equipment sales	$ 189,410	$ 159,011	$ 526,450	$ 931,797
License and transaction fees	152,298	155,245	480,259	475,963
Total revenues	341,708	314,256	1,006,709	1,407,760
Operating expenses:				
Cost of sales	216,617	159,310	602,794	864,402
General and administrative	1,656,445	1,392,857	3,644,551	3,555,753
Compensation	732,027	513,382	1,809,502	1,664,299
Depreciation and amortization	33,583	20,150	100,755	46,736
Total operating expenses	2,638,672	2,085,699	6,157,602	6,131,190
	(2,296,964)	(1,771,443)	(5,150,893)	(4,723,430)
Other income (expenses):				
Interest income	7,010	27,303	53,944	49,471
Interest expense	(370,714)	(402,894)	(1,096,101)	(1,245,332)
Joint Venture activities	10,213	(28,005)	(33,757)	(78,398)
Total other expenses	(353,491)	(403,596)	(1,075,914)	(1,274,259)
Net loss	(2,650,455)	(2,175,039)	(6,226,807)	(5,997,689)
Cumulative preferred dividends	(414,708)	(460,895)	(836,541)	(930,078)
Loss applicable to common shares	$ (3,065,163)	$ (2,635,934)	$ (7,063,348)	$ (6,927,767)
Loss per common share (basic and diluted)	$ (0.18)	$ (0.22)	$ (0.45)	$ (0.76)
Weighted average number of common shares outstanding (basic and diluted)	17,114,702	12,115,239	15,702,556	9,138,032

See accompanying notes.

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

	Series A Convertible Preferred Stock	Common Stock	Deferred Compensation	Subscriptions Receivable	Accumulated Deficit	Total
Balance, June 30, 2000	$4,012,266	$24,204,050	$(206,000)	$ --	$(28,165,798)	$ (155,482)
Conversion of 15,160 shares of Convertible Preferred Stock to 15,160 shares of Common Stock	(107,333)	107,333	--	--	--	--
Conversion of $120,030 of cumulative preferred dividends into 12,003 shares of Common Stock at $10.00 per share	--	120,030	--	--	(120,030)	--
Issuance of 12,250 shares of Common Stock to employees as compensation	--	20,275	--	--	--	20,275
Issuance of 200,000 shares of Common Stock in exchange for professional services	--	200,000	--	--	--	200,000
Issuance of 4,000 shares of Common Stock from the conversion of $10,000 of the 1999 12% Senior Notes at $2.50 per share	--	7,482	--	--	--	7,482
Exercise of 2,072,600 Common Stock warrants at $1.00 per share	--	2,072,600	--	--	--	2,072,600
Compensation expense related to deferred stock awards	--	--	77,250	--	--	77,250
Issuance of 1,150,000 shares of Common Stock at $1.00 per share in connection with the 2000-B Private Placement, net of offering costs of $117,849	--	1,032,151	--	(255,000)	--	777,151
Issuance of 1,298,800 shares of Common Stock in connection with the 2000 12% Convertible Senior Note Offering	--	1,389,718	--	(1,412,500)	--	(22,782)
Issuance of 45,046 shares of Common Stock in lieu of cash payment for interest on the 2000 12% Convertible Senior Note Offering	--	53,470	--	--	--	53,470
Issuance of 1,200,000 Common Stock commitment warrants in connection with the $20 million equity line Investment Agreement	--	--	--	--	--	--
Net loss	--	--	--	--	(6,226,807)	(6,226,807)
Balance, March 31, 2001	$3,904,933	$29,207,109	$(128,750)	$(1,667,500)	$(34,512,635)	$(3,196,843)

See accompanying notes.

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

	Nine months ended March 31, 2001	2000
Operating activities		
Net loss	$(6,226,807)	$(5,997,689)
Adjustments to reconcile net loss to net cash used in operating activities:		
Compensation charges incurred in connection with Stock awards and the issuance of Common Stock	97,525	828,969
Interest/amortization relating to Senior Note Offering	674,612	752,339
Issuance of Common Stock in lieu of cash payments for interest on Senior Note	53,470	--
Depreciation	137,722	68,741
Provision for allowance for uncollectible accounts	31,984	10,360
Changes in operating assets and liabilities:		
Accounts receivable	347,739	158,468
Inventory	(218,758)	38,215
Prepaid expenses, deposits, and other assets	427,463	13,923
Accounts payable	743,126	(159,123)
Accrued expenses	388,887	230,975
Net cash used in operating activities	(3,543,037)	(4,054,822)
Investing activities		
Purchase of property and equipment	(260,338)	(139,704)
Increase in software development costs	(1,560,511)	--
Net cash used in investing activities	(1,820,849)	(139,704)
Financing activities		
Net proceeds from issuance of Common Stock and exercise of Common Stock warrants and options	2,849,751	6,422,691
Net proceeds from issuance of Senior Notes	1,147,026	171,411
Net repayment of equipment line of credit	(130,846)	(720,796)
Payment of deferred financing costs	(49,227)	--
Collection of subscriptions receivable	12,199	48,999
Repayment of principal on capital lease obligations	(23,106)	(7,365)
Net cash provided by financing activities	3,805,797	5,914,940
Net (decrease) increase in cash and cash equivalents	(1,558,089)	1,720,414
Cash and cash equivalents at beginning of year	1,859,360	1,665,016
Cash and cash equivalents at end of period	$ 301,271	$ 3,385,430
Supplemental disclosures of cash flow information:		
Transfer of inventory to property and equipment	$ 41,818	$ 100,246
Conversion of Convertible Preferred Stock to Common Stock	$ 107,333	$ 322,494
Conversion of Convertible Preferred Dividends to Common Stock	$ 120,030	$ 267,070
Conversion of Senior Notes to Common Stock	$ 7,482	$ --
Issuance of Common Stock in connection with 2000 Senior Note Offering	$ 1,389,718	$ --
Cash paid for interest	$ 368,019	$ 270,939
Capital lease obligations	$ 118,207	$ --
Prepaid stock compensation	$ 200,000	$ 590,779
Subscriptions receivable outstanding	$ 1,727,500	$ --

See accompanying notes.

1. Business

USA Technologies, Inc. provides unattended, credit card activated control systems for the copy, fax, debit card, vending and personal computer industries. The Company's devices make available credit and debit card payment technology in connection with the sale of a variety of products and services. Customers are located primarily in the United States and are currently comprised of hotels, retail locations, university libraries and public libraries. The Company generates its revenues from the direct sale of its control systems and the resale of configured business equipment utilizing its control systems, as well as by network fees and a percentage of the monies generated from all credit card transactions conducted through its control systems.

The Company is developing its next generation of control systems (e-Port(TM)) which is web-enabled. This web enabled e-Port(TM) includes capabilities for interactive advertising and e-commerce, acceptance of other forms of electronic payment systems, auditing of internal activities of the vending machine, and reporting of this audited data to a monitoring station. Non web enabled e-Port(TM) terminals are currently being piloted and limited production quantities are in production during the last quarter of fiscal 2001.

As of March 31, 2001, the Company had a total installed base of 1,381 control systems, distributed as follows: 1,077 Business Express(R) or MBE Business Express(TM) control systems, 146 Business Express(R) Limited Service (LSS) control systems, 23 Copy Express(TM) control systems, 12 Debit Express(TM) control systems, 4 Fax/Printer Express(TM) control systems, 3 Public PC(TM) control systems and 76 standalone TransAct(TM) control systems, located primarily at various hotels and libraries throughout the United States. In addition, there were 40 non web enabled e-Port(TM) control systems located at vending locations in the United States. The total Business Express(R) or MBE Business Express(TM), LSS, Copy Express(TM), Debit Express(TM), Fax/Printer Express(TM), Public PC(R), TransAct(TM) and e-Port(TM) locations as of March 31, 2001 is 458, compared to 352 locations as of March 31, 2000.

2. Accounting Policies

Interim Financial Information

The consolidated financial statements and disclosures included herein for the three and nine months ended March 31, 2001 and 2000 are unaudited. These financial statements and disclosures have been prepared by the Company in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of adjustments of a normal and recurring nature) considered necessary have been included. Operating results for the three and nine month periods ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ended June 30, 2001.

Consolidation

The consolidated financial statements include the accounts of the MBE Joint Venture (Note 5). All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash Equivalents

Cash equivalents represent all highly liquid investments with original maturities of three months or less. Cash equivalents are comprised of a money market fund and certificates of deposit.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over three to seven years for financial statement purposes and accelerated methods for income tax reporting purposes.

Revenue Recognition

Revenue from the sale of equipment is recognized upon installation and customer acceptance of the related equipment. License fee revenue (including transaction processing revenue) is recognized upon the usage of the Company's credit card activated control systems.

Software Development Costs

The Company capitalizes software development costs that are incurred subsequent to the establishment of the software's technological feasibility and up to the product's availability for general release to the Company's customers. Through March 31, 2001, the Company capitalized approximately $1.7 million of such costs relating to the development of the network by IBM to support the new web enabled e-Port(TM). All costs incurred in the research and development of new software and costs incurred prior to the establishment of technological feasibility are expensed as incurred. Amortization of such capitalized costs is the greater of the amount computed using (i) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues of that product or (ii) the straight line method over the remaining estimated economic life of the product, including the period being reported on. Amortization of such costs will commence when the software becomes available for general release and use by the Company's customers which is expected to occur in the fourth quarter of fiscal 2001 or the first quarter of fiscal 2002.

Loss per Common Share

Loss per share is calculated by dividing the net loss by the weighted average common shares outstanding for the period. No exercise of stock options, purchase rights, stock purchase warrants, conversion of senior notes, or conversion of preferred stock and cumulative preferred dividends was assumed because the assumed exercise of these securities would be antidilutive.

3. Financing Activities

On October 17, 2000 the Company authorized a $5,000,000 private placement offering of 500 units at a unit price of $10,000. Each unit consists of a 12% Convertible Senior Note in the principal amount of $10,000 due December 31, 2003 and 2,000 Common Stock Purchase Warrants. Each 12% Senior Note is convertible into Common Stock at $1.25 per share anytime through its maturity date. Holders of the 12% Senior Notes issued in 1999 have the right to invest in this private placement offering by exchanging their existing Notes instead of paying cash. On December 22, 2000, the Company amended this offering by substituting 2,000 shares of restricted Common Stock for the 2,000 Common Stock Purchase Warrants, and by authorizing the sale of an additional 100 units. All payments of interest on these Convertible Notes can be used by the holder, at the holder's option, to purchase shares of Common Stock at $1.00 per share. During February 2001, the Company authorized an additional 70 units for sale for a total offering of 670 units. The Company has agreed to register for resale under the Securities Act of 1933 ("Act") all of the Common Stock into which the Notes are convertible, all of the restricted Common Stock issuable as part of the units, and all of the Common Stock which is purchased by the holders of the Notes with the interest payments made on the Notes.

On January 31, 2001, the Company closed the new Convertible Senior Note Offering maturing December 31, 2003 with 670 units sold. Signed subscription documents were received for all units sold. During February and March 2001, subscriptions for 20.6 units were rescinded, resulting in a total as of March 31, 2001 of 649.4 units, or $6,494,000 in gross proceeds to be received from the new 12% Convertible Senior Notes. Of this amount, $3,813,000 were purchased through the exchange of $3,813,000 of the 1999 12% Senior Notes. Units representing $2,681,000 were purchased or to be purchased with cash, of which the Company has received $1,208,500 through March 31, 2001, resulting in subscriptions receivable of $1,472,500. The Company paid $61,478 in financing costs relating to this investment activity. Subsequent to March 31, 2001, $60,000 of proceeds has been received and is reflected in current assets.

As of March 31, 2001, as a result of the exchange of 381.3 units ($3,813,000) of 1999 12% Senior Notes out of a total of 406.3 units ($4,063,000), 25.0 units or $250,000 remain to be redeemed in cash by the Company at December 31, 2001.

During February 2001, the Company authorized a private placement of restricted Common Stock to a limited number of private investors. Subsequent to March 31, 2001, the Company sold and deposited $450,000 related to the sale of 450,000 shares of Common Stock to 9 accredited investors for $1.00 per share.

During March 2001, the Company authorized a $1,000,000 private placement offering (the "2001-B" offering, later increased to $1,500,000 with right of oversubscription to add an additional $750,000) of up to 1,000,000 shares (later increased to 2,250,000 shares) of restricted Common Stock at $1.00 per share to a limited number of accredited investors. For each share purchased, the Company will issue a Common Stock purchase warrant to purchase two shares of restricted Common Stock for $1.00 per share at any time through December 31, 2001. The offering shall terminate by May 31, 2001, with further extension of up to 60 days authorized. Subsequent to March 31, 2001, signed subscription agreements of $1,094,000 have been received from this offering, and $250,500 of cash proceeds has been deposited by the Company.

4. Stock Options, Warrants, Purchase Rights and Shares Outstanding

As of March 31, 2001, there were 11,740 Common Stock Purchase Rights outstanding, 7,569,767 options outstanding to purchase Common Stock at exercise prices ranging from $1.00 to $5.00 per share, of which 7,299,769 were vested, and 4,988,650 shares of Common Stock issuable upon exercise of 4,988,650 warrants. On a fully diluted basis, including the outstanding Common Stock, the conversion of the 1999 and 2000 12% Senior Notes, the conversion of Series A Convertible Preferred Stock and the related cumulative preferred dividends, the Company would have 37,060,606 common shares outstanding at March 31, 2001.

On February 7, 2001, the Company authorized the extension from January 31, 2001 to March 31, 2001 of the temporary reduction in the exercise price of the following warrants to $1.00 per share: 2000-B, 1999-B, 1998-B, 1998-A, 1997, 1996-B, 1996, and 1995. The Company also authorized the extension from December 31, 2000 to March 31, 2001 of the temporary reduction in the exercise price of 11,740 purchase rights to $1.00 per share. On March 23, 2001, the Company extended all dates referred to in this paragraph until May 31, 2001.

On February 26, 2001, the Company authorized the following:

a) granting of warrants to Automated Merchandising Systems, Inc. to purchase up to 1,000,000 shares of Common Stock at $1.50 per share (later reduced to $1.00 per share) through June 1, 2001 (later extended to June 30, 2001). The exercise price was equal to the fair value of the Company's Common Stock on the grant date;

b) granting of options to the six outside Directors to purchase up to 300,000 shares of the Company's Common Stock at $1.00 per share, which was equal to the fair market value on the date of the grant. Forty percent of the options vested immediately, thirty percent will vest on June 30, 2001, and thirty percent will vest on June 30, 2002. Each group of options are exercisable for a period of five years from its respective date of vesting;

c) granting of options for employees of the Company to purchase a total of 85,000 shares of the Company's Common Stock at $1.00 per share, which was equal to the fair market value on the date of the grant. The options vest immediately and are exercisable for a period of five years;

d) extension of the expiration dates of 435,250 options held by various investors to June 30, 2003.

5. MBE Joint Venture

In May 1999, the MBE Business Express Joint Venture was terminated. Obligations for continued servicing of JV installations are being met by the Company. At March 31, 2001 the JV recorded gross accounts payable to MBE of $207,662 which is subject to offset pursuant to the pending legal proceedings with MBE.

6. Subsequent Events

On April 20, 2001 the Company signed an Alliance Agreement with Marconi Online Systems, Inc. ("Marconi"), a subsidiary of Marconi, plc, for a five year term. Both companies have agreed to sell each other's products as complementary offerings in the intelligent vending marketplace. Marconi's product offerings include market tested electronics for tracking vending machine inventory and machine performance, integrated with centralized monitoring software for cutting operator costs by improving route efficiencies. The Company's product offerings include credit card capability and web-based interactive advertising and local content display capability. As part of the Alliance Agreement, the Company has granted fully vested options to Marconi to purchase up to 3,000,000 shares of Common Stock at any time until June 5, 2001 at a price of $1.00 per share, and options to purchase up to 3,000,000 additional shares of Common Stock at $1.25 per share at any time until September 5, 2001. Both option prices were equal to or greater than the fair value of the Company's Common Stock on the grant date.

The Company on April 26, 2001 approved a bonus of a total of 406,000 shares of Common Stock and options to purchase up to 360,000 shares of Common Stock to the executive officers of the Company. The options are exercisable at $1.00 per share and vest over a 24 month period. The Company also granted fully vested warrants to a financial and public relations company for consulting services to be rendered in the future to purchase up to 75,000 shares of the Company's Common Stock, exercisable within 5 years of issuance at $1.25 per share, which is equal to or greater than the price of the Stock on the grant date. Finally, the Company authorized issuance to Swartz Private Equity of fully vested warrants to purchase 377,927 shares of the Company's Common Stock for $1.00 per share at any time within ten years, pursuant to the terms of the prior Agreement with Swartz.

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

Forward Looking Statements

This Form 10-QSB contains certain forward looking statements regarding, among other things, the anticipated financial and operating results of the Company. For this purpose, forward looking statements are any statements contained herein that are not statements of historical fact and include, but are not limited to, those preceded by or that include the words, "believes," "expects," "anticipates," or similar expressions. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements.

The forward looking information is based on various factors and was derived using numerous assumptions. Important factors that could cause the Company's actual results to differ materially from those projected, include, for example (i) the ability of the Company to generate sufficient sales to generate operating profits, or to sell products at a profit, (ii) the ability of the Company to raise funds in the future through sales of securities, (iii) whether the Company is able to enter into binding agreements with third parties to assist in product or network development, (iv) the ability of the Company to commercialize its developmental products including the e-Port(TM), or if actually commercialized, to obtain commercial acceptance thereof, (v) the ability of the Company to compete with its competitors to obtain market share, (vi) the ability of the Company to obtain sufficient funds through operations or otherwise to repay its debt obligations, or (vii) the ability to collect its subscriptions receivable. Although the Company believes that the forward looking statements contained herein are reasonable, it can give no assurance that the Company's expectations will be met.

Results of Operations

The fiscal quarter ended March 31, 2001 resulted in a net operating loss of $2,650,455 compared to a net operating loss of $2,175,039 for the fiscal quarter ended March 31, 2000. Losses are projected to continue until sufficient revenue is generated from equipment sales and licensing fees from the Company's proprietary technology.

Revenues were $341,708 compared to $314,256 from the previous year's fiscal quarter. This $27,452 or 9% increase was mainly due to an increase in the sale of the Company's stand-alone TransAct(R) control systems. Of the total revenues, equipment sales totaled $189,410, an increase of $30,399 or 19% over the same period last year. License fees, however, remained consistent at $152,298 compared to $155,245 for the same period during the prior year. Revenue is still well below the level required for the Company to be profitable.

Cost of sales for the period included labor and equipment of $216,617, an increase of $57,307 or 36% compared to the same period during the prior year. This increase is directly attributable to the increase in equipment sales described above and the decrease of equipment purchase discounts received in the prior year's quarter from the Company's suppliers, of $30,647.

General and administrative expenses of $1,656,445 increased by $263,588 or 19% from the same quarter last year. The increase was due principally to an increase in product development costs of $87,102, trade show and related travel expenses of $58,133, license fees of $30,885 and public relations costs of $27,428. Non cash legal costs incurred this quarter were $332,699.

Compensation expense of $732,027 increased by $218,645 or 43% due to increases in employee benefit expense, an increase in matching 401K Company contributions instituted in July 2000, and an increase in bonuses.

The interest expense decrease of $32,180 was primarily due to the conversion of 1999 Senior Notes into Common Stock and the lengthening of the amortization period due to the exchange of 1999 Senior Notes into 2000 Senior Notes, offset by a smaller increase in interest payments related to the sale of additional Senior Notes. Depreciation expense increased from $20,150 to $33,583, directly attributable to an increase in the depreciable asset base.

The nine month period ended March 31, 2001 resulted in a net operating loss of $6,226,807 compared to a net operating loss of $5,997,689 for the comparable period ended March 31, 2000. Revenues were $1,006,709 compared to $1,407,760, a $401,051 or 28% reduction due to some reduction in volume and an increase in sales of lower priced standalone TransAct(R) control systems. Of the total revenues, equipment sales totaled $526,450, a decrease of $405,347 or 44%, on reduced volume. Cost of sales of $602,794 represented a decrease of $261,608, and is directly attributable to the decrease in equipment sales. General and administrative expenses of $3,644,551 increased by $88,798 or 2%. The principal reason was increases in product development costs of $142,578, public relations expense of $100,216, trade show and related travel expense of $86,064 and license fees of $76,847. These increases were offset by a large decrease in legal fees of $330,488 mostly due to the decreased activities related to the pending MBE litigation. Non cash legal costs incurred in the current nine month period were $481,776. Compensation expense of $1,809,502 increased by $145,203 or 9% due to increases in employee benefit expense, increase in matching 401K Company contributions instituted in July 2000 and an increase in bonuses. Debt related expenses including interest charges decreased $149,231 from the comparable nine month period last year, due mainly to the Senior Note conversions into Common Stock, the lengthening of the amortization period due to the 1999 Senior Note exchanges into 2000 Senior Notes, and lower outstanding balances on the equipment line of credit.

Plan of Operations

During the quarter the Company continued its work towards commercialization of its e-Port(TM) technology and web enabled network and the cultivation of partners and future customers. e-Port(TM) terminals are currently being piloted and limited production quantities are in production during the last quarter of fiscal 2001.

The e-Port(TM) contains the functionality of the current TransAct(TM) terminal for credit and debit card processing, control and data management. In addition, e-Port(TM) will also offer other capabilities including public access electronic commerce and advertising using the internet, acceptance of other forms of electronic payment systems, and the capability to audit the physical activities of the vending machine and communicate this information to a monitoring station.

In March 2001, the Company unveiled the combined USA-Marconi product line including the e-Port(TM) to the vending industry at Spring NAMA, the vending industry's semi-annual trade show event. The e-Port(TM) was displayed in vending machines in the booths of three prominent vending manufacturers. Interest in the e-Port(TM) was shown by groups from all parts of the industry, including vending manufacturers, electronic component manufacturers, distributors, contract feeders, bottlers and beverage manufacturers. The Company has been and is continuing to cultivate relationships with such interested parties.

On March 29, 2001 the Company signed its first OEM agreement in the vending industry, with Automated Merchandising Systems, Inc. (AMS), for a term of five years. The Agreement provides that the Company will sell to AMS its e-Port(TM) terminals for use in the AMS vending machine terminals.

During the quarter, the Company negotiated a strategic alliance with Marconi Online Systems, Inc., a vending industry subsidiary of multi-billion dollar U.K. based Marconi plc., a telecommunications company. This Alliance Agreement was signed on April 20, 2001 (see Note 6).

The Company is marketing its products through its full-time sales staff consisting of two national accounts salespeople and two regional sales managers, either directly to customer locations or to management companies servicing these locations. Strategic partnerships and pilot programs with key customers continue to be pursued and developed.

In May 2001, the Company signed a non-binding letter of intent with International Business Machines Corporation which confirmed the parties' discussions regarding the possible formation of a strategic alliance. The strategic alliance would provide for IBM to sell the Company's e-Port terminals with IBM's services to the vending industry, point of sale market, network home appliance market, as well as to other potential markets. Unless a definitive agreement is signed, neither party has any obligation whatsoever.

Liquidity and Capital Resources

For the nine month period ended March 31, 2001, there was a net decrease in cash of $1,558,089. This was attributable to $3,543,037 of cash used in operating activities, $1,820,849 of cash used for investing activities, principally $1,560,511 of software development cost for the new web enabled e-Port(TM) network, offset by cash provided by financing activities of $3,805,797 primarily from the issuance of Common Stock, the exercise of Common Stock Warrants and sale of Senior Notes. The cash used in operating activities consisted of the operating loss of $6,226,807, partially offset by favorable changes of $1,688,457 in operating assets and liabilities and $674,612 of non cash amortization of the equity component of the Senior Notes. As of March 31, 2001, total cash on hand was $301,271, and the working capital deficit was $1,185,915, of which $1,169,920 was invested in inventory.

During September 2000, the Company sold securities in a $1,150,000 private placement offering to a limited number of accredited investors. As of March 31, 2001, a total of $895,000 of proceeds had been collected, resulting in subscriptions receivable of $255,000. Any receivable not collected by June 30, 2001 will be written off and the subscription document will be rescinded.

On October 17, 2000 the Company authorized a private placement offering of 12% Convertible Senior Notes with attached Common Stock Purchase Warrants (see Note 3). On January 31, 2001, the Company closed the Offering. As of March 31, 2001, the Company has received signed subscription agreements for $2,681,000 of 12% Senior Notes, of which the Company has received and deposited $1,208,500 resulting in subscriptions receivable of $1,472,500. Of this amount, $60,000 of proceeds has been received subsequent to March 31, 2001 and is reflected in current assets. Any receivable not collected by June 30, 2001 will be written off and the subscription document will be rescinded.

During the quarter ended March 31, 2001, the holders of 599,600 Common Stock purchase warrants exercised these warrants at $1.00 per share resulting in aggregate gross proceeds to the Company of $599,600.

In April, 2001, the Company sold 450,000 shares to 9 accredited investors for $1.00 per share, generating $450,000 of gross proceeds for the Company.

During March 2001, the Company extended until May 30, 2001 the reduction of the exercise prices of all outstanding warrants and purchase rights to $1.00 per share, and extended the expiration dates until May 30, 2001 for the exercise of the 2000-B and 1999-B warrants at $1.00 per share and for the exercise of the 1995 warrants.

During March 2001, the Company authorized a $1,500,000 private placement offering (with right of oversubscription of an additional $750,000) of restricted Common Stock at $1.00 per share plus warrants to a limited number of accredited investors. Subsequent to March 31, 2001, signed subscription agreements of $1,094,000 have been received from this offering, and $250,500 of cash proceeds has been deposited by the Company.

Short term cash inflows could be generated by the following securities: 1.2 million 1999-B warrants at $1.00 per warrant by the end of May, 2001; 3 million options at $1.00 per option in early June 2001 held by Marconi; 1 million warrants at $1.00 per option by the end of June, 2001 held by Automated Merchandising Systems, Inc.; and 3 million options at $1.25 in early September, 2001 held by Marconi. If all these securities were exercised, a total of $8.95 million in gross proceeds would be received by the Company.

The Company believes that proceeds from the above offerings including collection of subscriptions receivable, together with funds available from the potential exercise of outstanding warrants and options, and from additional equity offerings, plus revenues from its business, would be sufficient to fund operations and investing activities until at least through the end of the fiscal year. However, there can be no assurance that any such additional sales of securities could be made by the Company, or that its subscriptions receivable could be collected, or that increased revenues would result from its business activities. Under such circumstances, the Company may cease to be a going concern or may have to reduce its operations.

Part II - Other Information

Item 1. Legal Proceedings

During March 2001, the Company and MBE entered into settlement discussions regarding the pending litigation in the United States District Court for the Southern District of California. By agreement of the parties, all discovery has been stayed and the trial originally scheduled for June 2001 has been postponed.

Item 2. Changes in Securities

On February 26, 2001, the Company granted to Automated Merchandising Systems, Inc. warrants to purchase up to 1,000,000 shares of Common Stock at $1.00 at any time through June 30, 2001. The warrants were issued pursuant to the exemption from registration set forth in Section 4(2) of the Act. The Company plans to register all of the shares of Common Stock underlying the warrants for resale by the holder under the Act.

During the quarter ended March 31, 2001, the Company sold 645.5 units of its 12% Convertible Senior Note offering to accredited investors, resulting in the issuance of $6,455,000 principal amount of Convertible Senior Notes due December 31, 2003, and 1,291,000 shares of restricted Common Stock. The securities were issued pursuant to the exemption from registration set forth in Section 4(2) of the Act. Of the units sold, 379.4 units were issued in exchange for $3,794,000 principal amount of the existing 1999 12% Senior Notes and 266.1 units were issued for cash, generating $2,661,000 of gross proceeds for the Company, of which the company has received and deposited $1,188,500 resulting in subscriptions receivable of $1,472,500.

During the quarter ended March 31, 2001, 45,046 shares of Common Stock were issued to certain 12% Senior Note Holders, in lieu of cash payment, for interest earned on the Notes. Such Note holders elected to receive Common Stock at the rate of one share per $1.00 of interest earned. Such shares of Common Stock were issued pursuant to the exemption from registration set forth in Section 3(a)(9) of the Act.

During the quarter ended March 31, 2001, 599,600 Common Stock purchase warrants were exercised at $1.00 per warrant, generating gross proceeds of $599,600. Such shares of Common Stock were issued pursuant to the exemption from registration set forth in Section 4(2) of the Act. All of such shares have been registered for resale by the holder thereof under the Act.

During the quarter ended March 31, 2001, the Company issued 3,160 shares of Common Stock upon the conversion of 3,160 shares of Series A Preferred Stock and issued 2,105 shares of Common Stock upon the conversion of $21,050 of cumulative dividends accrued and unpaid on the aforesaid shares of Preferred Stock. Such shares of Common Stock were issued pursuant to the exemption from registration set forth in Section 3(a)(9) of the Act.

During the quarter ended March 31, 2001, the Company granted to each of the six Directors who were not executive officers, options to purchase up to 50,000 shares of Common Stock for $1.00 at any time within five years of vesting. The options vest over a sixteen month period. The Company issued the options pursuant to the exemption from registration set forth in Section 4(2) of the Act. The Company has agreed at its cost and expense to use its best efforts to register the Common Stock underlying the options for resale by the holder thereof under the Act.

During the quarter ended March 31, 2001, the Company granted to employees of the Company who were not executive officers fully vested options to purchase up to 85,000 shares of Common Stock for $1.00 at any time within five years of vesting. The Company issued the options pursuant to the exemption from registration set forth in Section 4(2) of the Act. The Company has agreed at its cost and expense to use its best efforts to register the Common Stock underlying the options for resale by the holder thereof under the Act.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits. None.

(b) Reports on Form 8-K. During the quarter ended March 31, 2001, a Report on Form 8-K was filed on March 14, 2001 reporting an event under Item 5.

Signatures

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

USA TECHNOLOGIES, INC.

Date: May 15, 2001 /s/ George R. Jensen, Jr.

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

Date: May 15, 2001 /s/ Leland P. Maxwell

Leland P. Maxwell, Senior Vice President,
Chief Financial Officer