

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
(Amendment No. 1)**

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

For the quarterly period ended March 31, 2019

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 300, Malvern, Pennsylvania

(Address of principal executive offices)

19355

(Zip Code)

(610) 989-0340

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name Of Each Exchange On Which Registered
Common Stock, no par value	USAT	The NASDAQ Stock Market LLC
Series A Convertible Preferred Stock	USATP	The NASDAQ Stock Market LLC

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of September 19, 2019 there were 60,008,481 outstanding shares of Common Stock, no par value.

USA TECHNOLOGIES, INC.
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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (“Amendment No. 1”) amends our Quarterly Report on Form 10-Q for the three and nine months ended March 31, 2019, as filed with the U.S. Securities and Exchange Commission on October 9, 2019 (the “Original Filing” and the “Original Filing Date”).

This Amendment No. 1 is being filed to include additional discussion around the non-investigatory financial adjustments disclosed in Note 2, “Restatement of Consolidated Financial Statements” and to include the label “as restated” for the financial statements and tabular footnote disclosures impacted by the restatements discussed in the Original Filing. Pursuant to Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, we have included the entire text of Part I, Item 1 in this Amendment No. 1.

Part II, Item 6, has been included herein to reflect new certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, which are filed and furnished herewith, respectively. Because this Amendment No. 1 does not contain or amend any disclosure with respect to Items 307 and 308 of Regulation S-K, paragraphs 4 and 5 of the certifications pursuant to Section 302 have been omitted. Except as indicated in this Explanatory Note, no other changes were made to the Original Filing. This Amendment No. 1 speaks as of the Original Filing Date, and does not reflect events that may have occurred subsequent to the Original Filing Date.

Part I. Financial Information
Item 1. Consolidated Financial Statements

USA Technologies, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(\$ in thousands)	March 31, 2019	June 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 32,788	\$ 83,964
Accounts receivable, less allowance of \$3,714 and \$2,754, respectively	20,492	15,748
Finance receivables, net	6,119	4,603
Inventory, net	11,488	8,038
Prepaid expenses and other current assets	2,878	929
Total current assets	73,765	113,282
Non-current assets:		
Finance receivables due after one year, net	11,362	13,246
Other assets	1,922	720
Property and equipment, net	9,116	11,273
Intangibles, net	26,956	29,325
Goodwill	64,149	64,149
Total non-current assets	113,505	118,713
Total assets	\$ 187,270	\$ 231,995
Liabilities, convertible preferred stock and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 26,058	\$ 30,468
Accrued expenses	19,974	19,291
Capital lease obligations and current obligations under long-term debt	13,202	34,639
Income taxes payable	42	—
Deferred revenue	1,322	511
Total current liabilities	60,598	84,909
Long-term liabilities:		
Deferred income taxes	81	67
Capital lease obligations and long-term debt, less current portion	512	1,127
Accrued expenses, less current portion	100	66
Total long-term liabilities	693	1,260
Total liabilities	\$ 61,291	\$ 86,169
Commitments and contingencies (Note 14)		
Convertible preferred stock:		
Series A convertible preferred stock, 900,000 shares authorized, 445,063 issued and outstanding, with liquidation preferences of \$20,111 and \$19,443 at March 31, 2019 and June 30, 2018, respectively	3,138	3,138
Shareholders' equity:		
Preferred stock, no par value, 1,800,000 shares authorized, no shares issued	—	—
Common stock, no par value, 640,000,000 shares authorized, 60,019,438 and 59,998,811 shares issued and outstanding at March 31, 2019 and June 30, 2018, respectively	376,700	375,436
Accumulated deficit	(253,859)	(232,748)
Total shareholders' equity	122,841	142,688
Total liabilities, convertible preferred stock and shareholders' equity	\$ 187,270	\$ 231,995

See accompanying notes.

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

(\$ in thousands, except per share data)	Three months ended March 31,		Nine months ended March 31,	
	2019	2018 (as restated)	2019	2018 (as restated)
Revenue:				
License and transaction fees	\$ 31,630	\$ 25,381	\$ 90,438	\$ 68,292
Equipment sales	6,016	8,211	15,136	22,091
Total revenue	37,646	33,592	105,574	90,383
Costs of sales:				
Cost of services	20,423	16,037	58,542	43,640
Cost of equipment	7,444	7,710	17,900	21,545
Total costs of sales	27,867	23,747	76,442	65,185
Gross profit	9,779	9,845	29,132	25,198
Operating expenses:				
Selling, general and administrative	11,156	9,629	31,537	25,558
Investigation and restatement expenses	1,408	—	13,122	—
Integration and acquisition costs	24	1,677	1,127	5,774
Depreciation and amortization	1,083	1,105	3,359	2,087
Total operating expenses	13,671	12,411	49,145	33,419
Operating loss	(3,892)	(2,566)	(20,013)	(8,221)
Other income (expense):				
Interest income	318	226	1,104	630
Interest expense	(913)	(863)	(2,518)	(2,106)
Total other expense, net	(595)	(637)	(1,414)	(1,476)
Loss before income taxes	(4,487)	(3,203)	(21,427)	(9,697)
(Provision) benefit for income taxes	(23)	(20)	(60)	109
Net loss	(4,510)	(3,223)	(21,487)	(9,588)
Preferred dividends	(334)	(334)	(668)	(668)
Net loss applicable to common shares	\$ (4,844)	\$ (3,557)	\$ (22,155)	\$ (10,256)
Net loss per common share				
Basic	\$ (0.08)	\$ (0.07)	\$ (0.37)	\$ (0.20)
Diluted	\$ (0.08)	\$ (0.07)	\$ (0.37)	\$ (0.20)
Weighted average number of common shares outstanding				
Basic	60,065,053	53,637,085	60,059,594	51,101,813
Diluted	60,065,053	53,637,085	60,059,594	51,101,813

See accompanying notes.

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

Nine Month Period Ended March 31, 2018 (as restated)

(\$ in thousands)	Common Stock		Accumulated Deficit	Total
	Shares	Amount		
Balance, June 30, 2017	40,331,645	\$ 245,999	\$ (221,531)	\$ 24,468
Issuance of common stock in relation to public offering, net of offering costs incurred of \$3,237	9,583,332	39,888	—	39,888
Stock based compensation	279,754	409	—	409
Excess tax benefit from stock plans	—	—	67	67
Net loss	—	—	(2,171)	(2,171)
Balance, September 30, 2017	50,194,731	\$ 286,296	\$ (223,635)	\$ 62,661
Issuance of common stock as merger consideration	3,423,367	23,279	—	23,279
Stock based compensation	1,800	575	—	575
Net loss	—	—	(4,194)	(4,194)
Balance, December 31, 2017	53,619,898	\$ 310,150	\$ (227,829)	\$ 82,321
Stock based compensation	66,421	549	—	549
Retirement of common stock	(19,601)	(177)	—	(177)
Net loss	—	—	(3,223)	(3,223)
Balance, March 31, 2018	53,666,718	\$ 310,522	\$ (231,052)	\$ 79,470

Nine Month Period Ended March 31, 2019

(\$ in thousands)	Common Stock		Accumulated Deficit	Total
	Shares	Amount		
Balance, June 30, 2018	59,998,811	\$ 375,436	\$ (232,748)	\$ 142,688
Cumulative effect adjustment for ASC 606 adoption	—	—	376	376
Stock based compensation	13,344	370	—	370
Net loss	—	—	(6,320)	(6,320)
Balance, September 30, 2018	60,012,155	\$ 375,806	\$ (238,692)	\$ 137,114
Stock based compensation	1,563	557	—	557
Net loss	—	—	(10,657)	(10,657)
Balance, December 31, 2018	60,013,718	\$ 376,363	\$ (249,349)	\$ 127,014
Stock based compensation	5,720	337	—	337
Net loss	—	—	(4,510)	(4,510)
Balance, March 31, 2019	60,019,438	\$ 376,700	\$ (253,859)	\$ 122,841

See accompanying notes.

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

(\$ in thousands)	Nine months ended March 31,	
	2019	2018 (as restated)
OPERATING ACTIVITIES:		
Net loss	\$ (21,487)	\$ (9,588)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Non-cash stock based compensation	1,393	1,424
Gain on disposal of property and equipment	(39)	(99)
Non-cash interest and amortization of debt discount	286	118
Bad debt expense	1,537	510
Provision for inventory reserve	2,699	1,361
Depreciation and amortization	6,300	5,586
Excess tax benefits	—	67
Deferred income taxes	14	(154)
Changes in operating assets and liabilities:		
Accounts receivable	(6,283)	(9,964)
Finance receivables, net	368	8,202
Sale of finance receivables	—	2,051
Inventory, net	(5,349)	(7,777)
Prepaid expenses and other assets	(1,545)	355
Accounts payable and accrued expenses	(3,866)	15,255
Deferred revenue	(316)	351
Income taxes payable	42	(30)
Net cash (used in) provided by operating activities	(26,246)	7,668
INVESTING ACTIVITIES:		
Purchase of property and equipment, including rentals	(2,627)	(3,138)
Proceeds from sale of property and equipment, including rentals	103	252
Cash paid for acquisitions, net of cash acquired	—	(65,181)
Net cash used in investing activities	(2,524)	(68,067)
FINANCING ACTIVITIES:		
Proceeds from collateralized borrowing from the transfer of finance receivables	—	1,075
Payment of debt issuance costs	(135)	(445)
Issuance of common stock in public offering, net	—	39,888
Proceeds from issuance of long-term debt	—	25,100
Proceeds from revolving credit facility	—	12,500
Repayment of revolving credit facility	—	(2,500)
Repayment of line of credit, net	—	(7,111)
Repayment of capital lease obligations and long-term debt	(22,313)	(3,751)
Cash used in retirement of common stock	—	(156)
Proceeds from exercise of common stock options	42	109
Net cash (used in) provided by financing activities	(22,406)	64,709
Net (decrease) increase in cash and cash equivalents	(51,176)	4,310
Cash and cash equivalents at beginning of year	83,964	12,745
Cash and cash equivalents at end of period	\$ 32,788	\$ 17,055
<i>Supplemental disclosures of cash flow information:</i>		
Interest paid in cash	\$ 2,321	\$ 1,873
Income taxes paid in cash	\$ 12	\$ 5
<i>Supplemental disclosures of noncash financing and investing activities:</i>		
Equity issued in connection with Cantaloupe Acquisition, net of post-working capital adjustment for retired shares	\$ —	\$ 23,279
Settlement of collateralized borrowing from the sale of finance receivables	\$ —	\$ 987
Equipment and software acquired under capital lease	\$ 5	\$ 227

See accompanying notes.

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

1. 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 and consumer engagement services primarily within the unattended Point of Sale (“POS”) market. We are a leading provider in the small ticket, beverage and food vending industry in the United States 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 and IoT 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. The connection to the ePort Connect platform also enables consumer loyalty programs, national rewards programs and digital content, including advertisements and product information to be delivered at the point of sale.

On November 9, 2017, the Company acquired all of the outstanding equity interests of Cantaloupe Systems, Inc. (“Cantaloupe”), pursuant to the Agreement and Plan of Merger (“Merger Agreement”). Cantaloupe is a premier provider of cloud and mobile solutions for vending, micro markets, and office coffee service. The acquisition expanded the Company’s existing platform to become an end-to-end enterprise platform integrating Cantaloupe’s Seed Cloud which provides cloud and mobile solutions for dynamic route scheduling, automated pre-kitting, responsive merchandising, inventory management, warehouse and accounting management, as well as cashless vending. The combined companies complete the value chain for customers by providing both top-line revenue generating services as well as bottom line business efficiency services to help operators of unattended retail machines run their business better. The combined product offering provides the data-rich Seed system with USAT’s consumer benefits, providing operators with valuable consumer data that results in customized experiences. In addition to new technology and services, due to Cantaloupe’s existing customer base, the acquisition expands the Company’s footprint into new global markets.

INTERIM FINANCIAL INFORMATION

The accompanying unaudited condensed consolidated financial statements of the Company 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 June 30, 2019 Annual Report on Form 10-K, which was filed on October 9, 2019 (the “Form 10-K”), and amended by Amendment No. 1 thereto (the “Form 10-K/A”), which has been filed concurrently with this Form 10-Q/A. 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 months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending June 30, 2019. The balance sheet at June 30, 2018 has been derived from the audited consolidated financial statements at that date, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

2. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

Overview

Concurrently with the filing of this Form 10-Q/A, the Company filed the Form 10-K/A containing our audited consolidated financial statements for the fiscal years ended June 30, 2019 and 2018 as well as restatements of the following previously filed consolidated financial statements: (i) our audited consolidated financial statements for the fiscal year ended June 30, 2017; (ii) our selected financial data as of and for the fiscal years ended June 30, 2017, 2016 and 2015 contained in Item 6 of the Form 10-K; and (iii) our unaudited condensed consolidated financial statements for the fiscal quarters ended September 30, 2017 and 2016, December 31, 2017 and 2016, and March 31, 2018 and 2017 in Note 20, “Unaudited Quarterly Data” of the Notes to Consolidated Financial Statements.

We have not filed and do not intend to file amendments to any of our previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the restatements of our consolidated financial statements. In addition, we have not filed and do not intend to file a separate Annual Report on Form 10-K for the fiscal year ended June 30, 2018. Concurrent with this filing, we are filing Amendment No. 1 on Form 10-Q/A to our Quarterly Reports on Form 10-Q for each of the fiscal quarters ended September 30, 2018 and December 31, 2018 (together with the Original Filing, the “Fiscal Year 2019 Form 10-

Qs”). We had not timely filed our Annual Report on Form 10-K for the fiscal year ended June 30, 2018 and the Fiscal Year 2019 Form 10-Qs as a result of the internal investigation of the Audit Committee of the Company’s Board of Directors (the “Audit Committee”) and the subsequent restatement of certain of our prior period financial statements as more fully described below.

Background

On September 11, 2018, the Company announced that the Audit Committee with the assistance of independent legal and forensic accounting advisors, was in the process of conducting an internal investigation of current and prior period matters relating to certain of the Company’s contractual arrangements, including the accounting treatment, financial reporting and internal controls related to such arrangements. The Audit Committee’s investigation focused principally on certain customer transactions entered into by the Company during fiscal years 2017 and 2018.

On January 14, 2019, the Company reported that the Audit Committee’s internal investigation was substantially completed, the principal findings of the internal investigation, and the remedial actions to be implemented by the Company as a result of the internal investigation. The Audit Committee found that, for certain of the customer transactions under review, the Company had prematurely recognized revenue. The Audit Committee proposed certain adjustments to previously reported revenues related to fiscal quarters occurring during the 2017 and 2018 fiscal years of the Company. In most cases, revenues that had been recognized prematurely were, or were expected to be, recognized in subsequent quarters, including quarters subsequent to the quarters impacted by the investigative findings. The investigation further found that certain items that had been recorded as expenses, such as the payment of marketing or servicing fees, were more appropriately treated as contra-revenue items in earlier fiscal quarters.

On February 4, 2019, the Board of Directors of the Company, upon the recommendation of the Audit Committee, and based upon the adjustments to previously reported revenues proposed by the Audit Committee, determined that the following financial statements previously issued by the Company should no longer be relied upon: (1) the audited consolidated financial statements for the fiscal year ended June 30, 2017; and (2) the quarterly and year-to-date unaudited condensed consolidated financial statements for September 30, 2017, December 31, 2017, and March 31, 2018.

On October 7, 2019, the Board of Directors of the Company, upon the recommendation of the Audit Committee, and based upon the non-investigatory adjustments described below, determined that the following financial statements previously issued by the Company should no longer be relied upon: (1) the audited consolidated financial statements for the fiscal year ended June 30, 2015; (2) the audited consolidated financial statements for the fiscal year ended June 30, 2016; and (3) the quarterly and year-to-date unaudited condensed consolidated financial statements for September 30, 2016, December 31, 2016, and March 31, 2017.

During the course of the restatement process and related reaudit of prior period financial statements, management performed a review of certain historical significant accounting policies, significant transactions, and the methodologies and assumptions underlying significant reserves. As a result, in addition to the adjustments resulting from the Audit Committee investigation described above, the Company also corrected for (i) out of period adjustments and errors related to the Company’s acquisition and financial integration of Cantaloupe and (ii) out of period adjustments and errors identified during management’s review of significant accounts and transactions that are not related to the Company’s acquisition and financial integration of Cantaloupe.

The acquisition and financial integration-related adjustments referred to in (i) above were reflected in the restatement of the financial statements for the fiscal quarters and year-to-date ended December 31, 2017 and March 31, 2018 contained in Note 20 of the Form 10-K/A, and relate to errors in the purchase accounting for our acquisition of Cantaloupe and errors in periods subsequent to the acquisition resulting from an ineffective integration of the financial systems and processes of the acquired entity with those of the Company. Such adjustments are primarily the result of:

- The Company previously recorded a conforming accounting policy adjustment in the Cantaloupe purchase price allocation to account for certain customer contracts as sales-type leases. Such adjustment was not recorded in accordance with Accounting Standards Codification 840, “Leases”. Further, the Company did not prepare and maintain adequate documentation and analyses to support the initial and ongoing accounting for such arrangements.
- The Company did not have effective processes and controls to recognize adequate reserves for sales-tax, inventory valuation and bad debts.
- The Company did not have effective controls to prevent or detect a data-entry error that resulted in duplicate sales order entries and related recognition of revenue in the accounting systems.
- The Company previously capitalized certain sales commissions. The Company concluded that these costs did not meet the applicable criteria for capitalization and should have been expensed as incurred.
- The Company previously issued shares of common stock as consideration for the acquisition of Cantaloupe and did not accurately record such shares at fair value based upon the closing price on the acquisition closing date.

The significant account and transaction review adjustments referred to in (ii) above were reflected where appropriate in the restatement of our fiscal year 2017 financial statements, in the restatement of our financial statements for the fiscal quarters and year-to-date ended September 30, 2016 and 2017, December 31, 2016 and 2017, and March 31, 2017 and 2018 appearing in Note 20 of the Form 10-K/A, and in the restated selected financial data for fiscal years 2015, 2016 and 2017 appearing in Item 6 of the Form 10-K, and primarily relate to the failure to maintain an effective control environment including ensuring that required accounting methodologies, policies and supporting documentation were in place. Such adjustments are not related to the Company's acquisition and financial integration of Cantaloupe and are primarily the result of:

- Since fiscal year 2014 the Company recognized a partial tax valuation allowance on its deferred tax assets. However, starting in fiscal year 2016 the Company should have recognized a full valuation allowance on its deferred tax assets.
- The Company historically inappropriately accounted for a fiscal year 2014 sale-leaseback transaction as an operating lease. The Company should have accounted for such transaction as a capital lease.
- The Company did not have effective processes and controls to recognize adequate reserves for sales-tax. In addition, the Company did not have effective processes to evaluate and estimate the Company's reserves for bad debts, sales returns, and excess and obsolete inventory at the lower of cost or net realizable value. It was concluded that the previous processes were based on assumptions that were not sufficiently documented or supported.
- The Company previously capitalized certain sales commissions. The Company concluded that these costs did not meet the applicable criteria for capitalization and should have been expensed as incurred.
- The Company historically incorrectly classified its convertible preferred stock within shareholders' equity on the Company's consolidated balance sheets.

Effect of Restatement on Previously Filed March 31, 2018 Form 10-Q

A summary of the impact of these matters on income (loss) before taxes is presented below:

(\$ in thousands)	Increase / (Decrease) Restatement Impact	
	Three months ended March 31, 2018	
Audit Committee Investigation-related Adjustments:		
Revenue	\$	(768)
Costs of sales	\$	(293)
Gross profit	\$	(475)
Operating loss	\$	(9)
Loss before income taxes	\$	(29)
Acquisition and Financial Integration-related Adjustments:		
Revenue	\$	(1,546)
Costs of sales	\$	(79)
Gross profit	\$	(1,467)
Operating loss	\$	(1,594)
Loss before income taxes	\$	(1,499)
Significant Account and Transaction Review and Other:		
Revenue	\$	75
Costs of sales	\$	231
Gross profit	\$	(156)
Operating loss	\$	(461)
Loss before income taxes	\$	(696)

(\$ in thousands)	Increase / (Decrease) Restatement Impact	
	Nine months ended March 31, 2018	
Audit Committee Investigation-related Adjustments:		
Revenue	\$	(2,045)
Costs of sales	\$	(1,353)
Gross profit	\$	(692)
Operating loss	\$	(226)
Loss before income taxes	\$	(248)
Acquisition and Financial Integration-related Adjustments:		
Revenue	\$	(1,606)
Costs of sales	\$	(112)
Gross profit	\$	(1,494)
Operating loss	\$	(1,882)
Loss before income taxes	\$	(1,722)
Significant Account and Transaction Review and Other:		
Revenue	\$	81
Costs of sales	\$	1,041
Gross profit	\$	(960)
Operating loss	\$	(1,858)
Loss before income taxes	\$	(2,623)

A summary of the impact of these matters on the condensed consolidated balance sheet is presented below, excluding any tax effect from the restatement adjustments in the aggregate:

(\$ in thousands)	Increase / (Decrease) Restatement Impact	
	As of March 31, 2018	
Audit Committee Investigation-related Adjustments:		
Accounts receivable	\$	(1,954)
Finance receivables, net	\$	(1,666)
Inventory, net	\$	2,459
Prepaid expenses and other current assets	\$	25
Other assets	\$	69
Property and equipment, net	\$	(146)
Accounts payable	\$	99
Accrued expenses	\$	341
Acquisition and Financial Integration-related Adjustments:		
Cash and cash equivalents	\$	(52)
Accounts receivable	\$	(1,974)
Finance receivables, net	\$	(32)
Inventory, net	\$	(500)
Prepaid expenses and other current assets	\$	(44)
Other assets	\$	(175)
Finance receivables due after one year, net	\$	190
Property and equipment, net	\$	826
Goodwill	\$	4,121
Accrued expenses	\$	883
Deferred revenue	\$	(153)
Common stock	\$	3,469
Significant Account and Transaction Review and Other:		
Accounts receivable	\$	127
Finance receivables, net	\$	28
Inventory, net	\$	(1,067)
Prepaid expenses and other current assets	\$	(173)
Other assets	\$	(693)
Property and equipment, net	\$	(635)
Accounts payable	\$	29
Accrued expenses	\$	9,877
Capital lease obligation and current obligations under long-term debt	\$	(5)
Deferred revenue	\$	(27)
Deferred gain from sale-leaseback transactions	\$	(198)
Common stock	\$	(582)

The restatement adjustments were tax effected and any tax adjustments reflected in the condensed consolidated financial statements in this note relate entirely to the tax effect on the restatement adjustments.

The tables below present the effect of the financial statement adjustments related to the restatement discussed above of the Company's previously reported financial statements as of and for the three and nine months ended March 31, 2018.

The effect of the restatement on the previously filed condensed consolidated balance sheet as of March 31, 2018 is as follows:

(\$ in thousands)	As of March 31, 2018		
	As Previously Reported	Adjustments	As Restated
Assets			
Current assets:			
Cash and cash equivalents	\$ 17,107	\$ (52)	\$ 17,055
Accounts receivable	23,166	(3,723)	19,443
Finance receivables, net	3,904	(1,670)	2,234
Inventory, net	11,030	893	11,923
Prepaid expenses and other current assets	1,869	(591)	1,278
Total current assets	57,076	(5,143)	51,933
Non-current assets:			
Finance receivables due after one year, net	9,679	191	9,870
Other assets	1,214	(800)	414
Property and equipment, net	12,198	45	12,243
Deferred income taxes	16,911	(16,911)	—
Intangibles, net	30,119	—	30,119
Goodwill	64,196	(47)	64,149
Total non-current assets	134,317	(17,522)	116,795
Total assets	\$ 191,393	\$ (22,665)	\$ 168,728
Liabilities, convertible preferred stock and shareholders' equity			
Current liabilities:			
Accounts payable	\$ 29,446	\$ 128	\$ 29,574
Accrued expenses	7,961	10,547	18,508
Capital lease obligations and current obligations under long-term debt	4,475	(5)	4,470
Income taxes payable	—	—	—
Deferred revenue	441	70	511
Deferred gain from sale-leaseback transactions	198	(198)	—
Total current liabilities	42,521	10,542	53,063
Long-term liabilities:			
Revolving credit facility	10,000	—	10,000
Deferred income taxes	—	96	96
Capital lease obligations and long-term debt, less current portion	22,895	—	22,895
Accrued expenses, less current portion	66	—	66
Total long-term liabilities	32,961	96	33,057
Total liabilities	\$ 75,482	\$ 10,638	\$ 86,120
Commitments and contingencies			
Convertible preferred stock:			
Series A convertible preferred stock, 900,000 shares authorized, 445,063 issued and outstanding, with liquidation preference of \$19,443 at March 31, 2018	—	3,138	3,138
Shareholders' equity:			
Preferred stock, no par value, 1,800,000 shares authorized, no shares issued	—	—	—
Series A convertible preferred stock, 900,000 shares authorized, 445,063 issued and outstanding, with liquidation preference of \$19,443 at March 31, 2018	3,138	(3,138)	—
Common stock, no par value, 640,000,000 shares authorized, 53,666,718 shares issued and outstanding at March 31, 2018	307,634	2,888	310,522
Accumulated deficit	(194,861)	(36,191)	(231,052)
Total shareholders' equity	115,911	(36,441)	79,470
Total liabilities, convertible preferred stock and shareholders' equity	\$ 191,393	\$ (22,665)	\$ 168,728

The effect of the restatement on the previously filed condensed consolidated statement of operations for the three and nine months ended March 31, 2018 is as follows:

(\$ in thousands, except per share data)	Three months ended March 31, 2018		
	As Previously Reported	Adjustments	As Restated
Revenue:			
License and transaction fees	\$ 27,020	\$ (1,639)	\$ 25,381
Equipment sales	8,812	(601)	8,211
Total revenue	35,832	(2,240)	33,592
Costs of sales:			
Cost of services	16,012	25	16,037
Cost of equipment	7,876	(166)	7,710
Total costs of sales	23,888	(141)	23,747
Gross profit	11,944	(2,099)	9,845
Operating expenses:			
Selling, general and administrative	9,572	57	9,629
Integration and acquisition costs	1,747	(70)	1,677
Depreciation and amortization	1,125	(20)	1,105
Total operating expenses	12,444	(33)	12,411
Operating loss	(500)	(2,066)	(2,566)
Other income (expense):			
Interest income	134	92	226
Interest expense	(612)	(251)	(863)
Total other expense, net	(478)	(159)	(637)
Loss before income taxes	(978)	(2,225)	(3,203)
Benefit (provision) for income taxes	2,138	(2,158)	(20)
Net income (loss)	1,160	(4,383)	(3,223)
Preferred dividends	(334)	—	(334)
Net income (loss) applicable to common shares	\$ 826	\$ (4,383)	\$ (3,557)
Net income (loss) per common share			
Basic	\$ 0.02	\$ (0.09)	\$ (0.07)
Diluted	\$ 0.02	\$ (0.09)	\$ (0.07)
Weighted average number of common shares outstanding			
Basic	53,637,085	—	53,637,085
Diluted	54,234,566	(597,481)	53,637,085

	Nine months ended March 31, 2018		
	As Previously Reported	Adjustments	As Restated
(\$ in thousands, except per share data)			
Revenue:			
License and transaction fees	\$ 69,817	\$ (1,525)	\$ 68,292
Equipment sales	24,138	(2,047)	22,091
Total revenue	93,955	(3,572)	90,383
Costs of sales:			
Cost of services	43,700	(60)	43,640
Cost of equipment	21,909	(364)	21,545
Total costs of sales	65,609	(424)	65,185
Gross profit	28,346	(3,148)	25,198
Operating expenses:			
Selling, general and administrative	24,647	911	25,558
Integration and acquisition costs	5,844	(70)	5,774
Depreciation and amortization	2,107	(20)	2,087
Total operating expenses	32,598	821	33,419
Operating loss	(4,252)	(3,969)	(8,221)
Other income (expense):			
Interest income	465	165	630
Interest expense	(1,315)	(791)	(2,106)
Total other expense, net	(850)	(626)	(1,476)
Loss before income taxes	(5,102)	(4,595)	(9,697)
(Provision) benefit for income taxes	(6,467)	6,576	109
Net loss	(11,569)	1,981	(9,588)
Preferred dividends	(668)	—	(668)
Net loss applicable to common shares	\$ (12,237)	\$ 1,981	\$ (10,256)
Net loss per common share			
Basic	\$ (0.24)	\$ 0.04	\$ (0.20)
Diluted	\$ (0.24)	\$ 0.04	\$ (0.20)
Weighted average number of common shares outstanding			
Basic	51,101,813	—	51,101,813
Diluted	51,101,813	—	51,101,813

The effect of the restatement on the previously filed condensed consolidated statement of cash flows for the nine months ended March 31, 2018 is as follows:

(\$ in thousands)	Nine months ended March 31, 2018		
	As Previously Reported	Adjustments	As Restated
OPERATING ACTIVITIES:			
Net loss	\$ (11,569)	\$ 1,981	\$ (9,588)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Non-cash stock-based compensation	2,005	(581)	1,424
(Gain) loss on disposal of property and equipment	(112)	13	(99)
Non-cash interest and amortization of debt discount	100	18	118
Bad debt expense	506	4	510
Provision for inventory reserve	—	1,361	1,361
Depreciation and amortization	5,858	(272)	5,586
Excess tax benefits	67	—	67
Deferred income taxes	6,400	(6,554)	(154)
Recognition of deferred gain from sale-leaseback transactions	(143)	143	—
Changes in operating assets and liabilities:			
Accounts receivable	(12,972)	3,008	(9,964)
Finance receivables, net	11,114	(2,912)	8,202
Sale of finance receivables	—	2,051	2,051
Inventory, net	(5,624)	(2,153)	(7,777)
Prepaid expenses and other current assets	(564)	919	355
Accounts payable and accrued expenses	13,808	1,447	15,255
Deferred revenue	(185)	536	351
Income taxes payable	—	(30)	(30)
Net cash provided by operating activities	8,689	(1,021)	7,668
INVESTING ACTIVITIES:			
Purchase of property and equipment, including rentals	(3,005)	(133)	(3,138)
Proceeds from sale of property and equipment, including rentals	252	—	252
Cash paid for acquisitions, net of cash acquired	(65,181)	—	(65,181)
Net cash used in investing activities	(67,934)	(133)	(68,067)
FINANCING ACTIVITIES:			
Proceeds from collateralized borrowing from the transfer of finance receivables	—	1,075	1,075
Proceeds from exercise of common stock options	109	—	109
Payment of debt issuance costs	(445)	—	(445)
Proceeds from issuance of long-term debt	25,100	—	25,100
Proceeds from revolving credit facility	12,500	—	12,500
Repayment of revolving credit facility	(2,500)	—	(2,500)
Issuance of common stock in public offering, net	39,888	—	39,888
Repayment of line of credit	(7,111)	—	(7,111)
Repayment of capital lease obligations and long-term debt	(3,778)	27	(3,751)
Cash used in retirement of common stock	(156)	—	(156)
Net cash provided by financing activities	63,607	1,102	64,709
Net increase in cash and cash equivalents	4,362	(52)	4,310
Cash and cash equivalents at beginning of year	12,745	—	12,745
Cash and cash equivalents at end of period	\$ 17,107	\$ (52)	\$ 17,055

3. ACCOUNTING POLICIES

RECENT ACCOUNTING PRONOUNCEMENTS

Accounting pronouncements adopted

In January 2017, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update No. 2017-04, Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment ("ASU 2017-04"), which eliminates Step 2 from the goodwill impairment test. Under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for

the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. We early adopted ASU 2017-04 for impairment tests to be performed on testing dates after July 1, 2017, which did not impact our condensed consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting, which modifies the accounting for certain aspects of share-based payments to employees. The new guidance requires excess tax benefits and tax deficiencies to be recorded in the income statement when stock awards vest or are settled. In addition, cash flows related to excess tax benefits are to be separately classified as an operating activity apart from other income tax cash flows. The standard also allows the Company to repurchase more of an employee's vested shares for tax withholding purposes without triggering liability accounting, and clarifies that all cash payments made to tax authorities on an employee's behalf for withheld shares should be presented as a financing activity on the statement of cash flows. The Company adopted this standard as of July 1, 2017.

The primary impact of adoption was the recognition of excess tax benefits in the Company's provision for income taxes which is applied prospectively starting July 1, 2017 in accordance with the guidance. Adoption of the new standard resulted in the recognition of \$31 thousand of excess tax benefits in the Company's provision for income taxes for the year ended June 30, 2018. Through June 30, 2017 excess tax benefits were reflected as a reduction of deferred tax assets via reducing actual operating loss carryforwards because such benefits had not reduced income taxes payable. Under the new standard the treatment of excess tax benefits changed and the cumulative excess tax benefits as of June 30, 2017 amounting to \$67 thousand were credited to accumulated deficit. The adoption of ASU No. 2016-09 did not impact our statement of cash flows for the nine months ended March 31, 2019 and 2018.

In March 2018, the FASB issued ASU No. 2018-05, "Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118." The standard adds guidance to ASC 740, Income Taxes, that contain SEC guidance related to SAB 118. The standard is effective upon issuance. Refer to Note 12 for further information regarding the impact of the standard.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805), Clarifying the Definition of a Business." ASU 2017-01 provides guidance in ascertaining whether a collection of assets and activities is considered a business. The Company adopted this standard as of July 1, 2018, and its adoption did not have a material effect on the Company's condensed consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting." The standard provides guidance about which changes to the terms or conditions of a share-based payment award require modification accounting, which may result in a different fair value for the award. The Company adopted this standard as of July 1, 2018, and it will be applied prospectively to awards modified on or after the adoption date. Its adoption did not have a material effect on the Company's condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments." The new guidance makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The Company adopted this standard as of July 1, 2018 on a retrospective basis, and its adoption did not have a material effect on the Company's condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606) ("the New Standard"). The New Standard provides a single model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. The New Standard also requires expanded qualitative and quantitative disclosures about the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted the New Standard on July 1, 2018, using the modified retrospective method applied to those contracts which were not completed as of July 1, 2018. Results for reporting periods beginning after July 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic revenue recognition methodology under ASC 605. Refer to Note 5 for further discussion.

Accounting pronouncements to be adopted

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 condensed consolidated financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which will require, among other items, lessees to recognize a right of use asset and a related lease liability for most leases on the balance sheet. Qualitative and quantitative disclosures will be enhanced to better understand the amount, timing and uncertainty of cash flows arising from leases. The Company adopted this new guidance on July 1, 2019, using the optional modified retrospective transition method. The Company expects the adoption to result in gross up on its consolidated balance sheets from the recognition of assets and liabilities arising out of operating leases. The Company will recognize assets for the right to use the underlying leased property during the lease term and will recognize liabilities for the corresponding financial obligation to make lease payments to the lessor.

The Company plans to elect the transition package of practical expedients permitted within the standard, which eliminates the requirements to reassess prior conclusions about lease identification, lease classification, and initial direct costs. The Company is substantially complete with the evaluation of the impact on the condensed consolidated financial statements of adopting the new lease standard and does not anticipate a material impact on the condensed consolidated statements of operations, shareholders' equity, and cash flows or to retained earnings. Additionally, the Company does not anticipate the adoption of the standard will impact any debt covenants or result in significant changes to the internal processes, including the internal control over financial reporting. The Company's operating leases primarily comprise of office facilities, with the most significant leases relating to corporate headquarters in Malvern, Pennsylvania and an office in San Francisco, California. The Company is in the process of finalizing changes to its systems and processes in conjunction with its review of lease agreements and will disclose the actual impact of adopting ASU 2016-02 in its interim report on Form 10-Q for the quarter ended September 30, 2019.

In July 2018, the FASB issued ASU No. 2018-09, "Codification Improvements". These amendments provide clarifications and corrections to certain ASC subtopics including "Compensation - Stock Compensation - Income Taxes" (Topic 718-740), "Business Combinations - Income Taxes" (Topic 805-740) and "Fair Value Measurement - Overall" (Topic 820-10). The majority of the amendments in ASU 2018-09 will be effective in annual periods beginning after December 15, 2018. The Company is currently evaluating and assessing the impact this guidance will have on its condensed consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)." The new guidance changes the accounting for estimated credit losses pertaining to certain types of financial instruments including, but not limited to, trade and lease receivables. This pronouncement will be effective for fiscal years beginning after December 15, 2019. Early adoption of the guidance is permitted for fiscal years beginning after December 15, 2018. The Company is currently evaluating and assessing the impact this guidance will have on its condensed consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, "Compensation - Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting." The standard simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. The changes take effect for public companies for fiscal years starting after December 15, 2018, including interim periods within that fiscal year. The Company expects that the adoption of this ASU would not have a material impact on the Company's condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, "Intangibles—Goodwill and Other (Topic 350): Internal-Use Software." This standard aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, which means that it will be effective for us in the first quarter of our fiscal year beginning July 1, 2020. The Company is currently evaluating and assessing the impact this guidance will have on its condensed consolidated financial statements.

4. ACQUISITION OF CANTALOUPE SYSTEMS, INC.

On November 9, 2017, the Company acquired all of the outstanding equity interests of Cantaloupe pursuant to the Merger Agreement, for approximately \$88.2 million in aggregate consideration. Cantaloupe is a premier provider of cloud and mobile solutions for vending, micro markets, and office coffee service.

The acquisition expanded the Company's existing platform to become an end-to-end enterprise platform integrating Cantaloupe's Seed Cloud, which provides cloud and mobile solutions for dynamic route scheduling, automated pre-kitting, responsive merchandising, inventory management, warehouse and accounting management, as well as cashless vending. In addition to new technology and services, due to Cantaloupe's existing customer base, the acquisition expands the Company's footprint into new global markets.

The fair value of the purchase price consideration consisted of the following:

(\$ in thousands)	
Cash consideration, net of cash acquired	\$ 65,181
USAT shares issued as stock consideration (As Restated)	23,279
Post-closing adjustment for working capital	(253)
Total consideration (As Restated)	<u>\$ 88,207</u>

The Company financed a portion of the purchase price with proceeds from a \$25.0 million term loan (“Term Loan”) and \$10.0 million of borrowings under a line of credit (“Revolving Credit Facility”), provided by JPMorgan Chase Bank, N.A., for an aggregate principal amount of \$35.0 million. Refer to Note 10 for additional details.

The acquisition of Cantaloupe was accounted for as a business combination using the acquisition method. Under the acquisition method of accounting, the assets acquired and liabilities assumed in the transaction were recorded at the date of acquisition at their respective fair values using assumptions that are subject to change. The Company has finalized its valuation of certain assets and liabilities recorded in connection with this transaction as of June 30, 2018.

The following table summarizes the fair value of total consideration transferred to the holders of all of the outstanding equity interests of Cantaloupe at the acquisition date of November 9, 2017:

(\$ in thousands)	November 9, 2017 (As Restated)
Accounts receivable	\$ 2,921
Finance receivables	1,480
Inventory	282
Prepaid expense and other current assets	646
Finance receivables due after one year	3,603
Other assets	50
Property and equipment	2,234
Intangibles	30,800
Total assets acquired	<u>42,016</u>
Accounts payable	(1,591)
Accrued expenses	(2,401)
Deferred revenue	(518)
Capital lease obligations and current obligations under long-term debt	(666)
Capital lease obligations and long-term debt, less current portion	(1,134)
Deferred income tax liabilities	(157)
Total identifiable net assets	<u>35,549</u>
Goodwill	52,658
Total fair value	<u>\$ 88,207</u>

Amounts allocated to intangible assets included \$18.9 million related to customer relationships, \$10.3 million related to developed technology, and \$1.6 million related to trade names. The fair value of the acquired customer relationships was determined using the excess earnings method. The fair value of both the acquired developed technology and the acquired trade names was determined using the relief from royalty method. The estimated useful life of the acquired intangible assets ranged from 6 to 18 years, with a weighted average estimated useful life of 13 years. The related amortization will be recorded on a straight-line basis.

Goodwill of \$52.7 million arising from the acquisition includes the expected synergies between Cantaloupe and the Company, the value of the employee workforce, and intangible assets that do not qualify for separate recognition at the time of acquisition. The goodwill, which is not deductible for income tax purposes, was assigned to the Company’s only reporting unit.

The amount of Cantaloupe revenue included in the Company’s Condensed Consolidated Statements of Operations for the three and nine months ended March 31, 2018 is \$7.3 million and \$12.0 million, respectively. The amount of Cantaloupe (loss) earnings included in the Company’s Condensed Consolidated Statements of Operations for the three and nine months ended March 31, 2018 is \$(0.5) million and \$1.0 million, respectively.

Supplemental disclosure of pro forma information

The following supplemental unaudited pro forma information presents the combined results of USAT and Cantaloupe as if the acquisition of Cantaloupe occurred on July 1, 2016. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on July 1, 2016, nor are they indicative of any future results.

The pro forma results include adjustments for the preliminary purchase accounting impact of the Cantaloupe acquisition (including, but not limited to, amortization associated with the acquired intangible assets, and the interest expense and amortization of deferred financing fees associated with the Term Loan and Revolving Credit Facility that were used to finance a portion of the purchase price, along with the related tax impacts) and the alignment of accounting policies. Other material non-recurring adjustments are reflected in the pro forma and described below:

(\$ in thousands, except per share data)	Three months ended	Nine months ended
	March 31, 2018 (as restated)	
Revenue	\$ 33,592	\$ 98,451
Net loss attributable to USAT	(1,895)	(6,254)
Net loss attributable to USAT common shares	\$ (2,229)	\$ (6,922)
Net loss per share:		
Basic	\$ (0.04)	\$ (0.13)
Diluted	\$ (0.04)	\$ (0.13)
Weighted average number of common shares outstanding:		
Basic	53,637,085	53,601,684
Diluted	53,637,085	53,601,684

The supplemental unaudited pro forma earnings for the three and nine months ended March 31, 2018 were adjusted to exclude \$1.7 million and \$5.8 million of integration and acquisition costs.

5. REVENUE

Adoption of ASC 606, Revenue from Contracts with Customers

In applying the new revenue guidance, the Company evaluated its population of open contracts with customers on July 1, 2018. The effect of adoption of this new guidance on the Condensed Consolidated Balance Sheet as of July 1, 2018 was to increase prepaid expenses and other current assets, other assets, and deferred revenue, with an offsetting decrease in the opening accumulated deficit, as follows:

(\$ in thousands)	June 30, 2018	Adjustment	July 1, 2018
	As Reported		Revised
ASSETS			
Prepaid expenses and other current assets	\$ 929	\$ 251	\$ 1,180
Other assets	720	1,254	1,974
LIABILITIES			
Deferred revenue	511	1,127	1,638
SHAREHOLDERS' EQUITY			
Accumulated deficit	(232,748)	376	(232,372)

The impact of the adoption of ASC 606 by financial statement line item within the Condensed Consolidated Balance Sheet as of March 31, 2019 and Condensed Consolidated Statement of Operations for the nine months ended March 31, 2019 is as follows:

(\$ in thousands)	March 31, 2019		March 31, 2019
	As Reported	Adjustment	Under Legacy Guidance
BALANCE SHEET			
Prepaid expenses and other current assets	\$ 2,878	\$ (263)	\$ 2,615
Other assets	1,922	(1,314)	608
Deferred revenue	1,322	(1,009)	313
Accumulated deficit	(253,859)	(568)	(254,427)
STATEMENT OF OPERATIONS			
License and transaction fees	90,438	(118)	90,320
Selling, general and administrative	31,537	72	31,609
Net loss	(21,487)	(190)	(21,677)

The impact of the adoption of ASC 606 by financial statement line item within the Condensed Consolidated Statement of Operations for the three months ended March 31, 2019 is as follows:

(\$ in thousands)	March 31, 2019		March 31, 2019
	As Reported	Adjustment	Under Legacy Guidance
STATEMENT OF OPERATIONS			
License and transaction fees	\$ 31,630	\$ (71)	\$ 31,559
Selling, general and administrative	11,156	58	11,214
Net loss	(4,510)	(130)	(4,640)

The adoption of ASC 606 had no effect on the cash flows from operating activities, investing activities or financing activities included in the Condensed Consolidated Statement of Cash Flows for the nine months ended March 31, 2019.

Revenue Recognition Under ASC 606 (Periods commencing after July 1, 2018)

The Company provides an end-to-end payment solution which integrates hardware, software, and payment processing in the self-service retail market. The Company has contractual agreements with customers that set forth the general terms and conditions of the relationship, including pricing of goods and services, payment terms and contract duration. Revenue is recognized when the obligation under the terms of the Company's contract with its customer is satisfied and is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services.

The foundation of the Company's business model is to act as the Merchant of Record for its sellers. We provide cashless vending payment services in exchange for monthly service fees, in addition to collecting usage-based consideration for completed transactions. The contracts we enter into with third-party suppliers provide us with the right to access and direct their services when processing a transaction. The Company combines the services provided by third-party suppliers to enable customers to accept cashless payment transactions, indicating that it controls all inputs in directing their use to create the combined service. Additionally, we sell cashless payment devices (e.g., e-Ports, Seed), which are either directly sold or leased through the Company's QuickStart or JumpStart programs.

Cashless vending services represent a single performance obligation as the combination of the services provided gives the customer the ability to accept cashless payments. Certain services are distinct, but are not accounted for separately as the rights are conterminous, they are transferred concurrently and the outcome is the same as accounting for the services as individual performance obligations. The single performance obligation is determined to be a stand-ready obligation to process payments whenever a consumer intends to make a purchase at a point-of-sale device. As the Company is unable to predict the timing and quantity of transactions to be processed, the assessment of the nature of the performance obligation is focused on each time increment rather than the underlying activity. Therefore, cashless vending services are viewed to comprise a series of distinct days of service that are substantially the same and have the same pattern of transfer to the customer. As a result, the promise to stand ready is accounted for as a single performance obligation.

Revenue related to cashless vending services is recognized over the period in which services are provided, with usage-based revenue recognized as transactions occur. Consideration for this service includes fixed fees for standing ready to process transactions, and generally also includes usage-based fees, priced as a percentage of transaction value and/or a specified fee per transaction processed. The total transaction price of usage-based services is determined to be variable consideration as it is based on unknown quantities of services to be performed over the contract term. The underlying variability is satisfied each day the service is performed and provided to the customer. Clients are billed for cashless vending services on a monthly basis and for transaction processing as transactions occur.

Equipment sales represent a separate performance obligation, the majority of which is satisfied at a point in time through outright sales or sales-type leases (ASC 840) when the equipment is delivered to the customer. Revenues related to JumpStart equipment are recognized over time as the customer obtains the right to use the equipment through an operating leases, however these are not significant to the Company's total revenue.

USAT will occasionally offer volume discounts, rebates or credits on certain contracts, which is considered variable consideration. USAT uses either the most-likely or estimated value method to estimate the amount of the consideration, based on what the Company expects to better predict the amount of consideration to which it will be entitled to on a contract-by-contract basis. The Company will qualitatively assess if the variable consideration should be constrained to prevent possible significant reversal of revenue, as applicable.

The Company assesses the goods and/or services promised in each customer the contract and separately identifies a performance obligation for each promise to transfer to the customer a distinct good or service. The Company then allocates the transaction price to each performance obligation in the contract using relative standalone selling prices. The Company determines standalone selling prices based on the price at which a good or service is sold separately. If the standalone selling price is not observable through historic data, the Company estimates the standalone selling price by considering all reasonably available information, including market data, trends, as well as other company or customer-specific factors.

The Company recognizes fees charged to our customers primarily on a gross basis as transaction revenue when we are the principal in respect of completing a payment transaction. As a principal to the transaction, we control the service of completing payments for our customers through the payment ecosystem. The fees paid to payment processors and other financial institutions are recognized as transaction expense. For certain transactions in which we act in the capacity as an agent, those transactions are recorded on a net basis.

Disaggregated Revenue

Based on similar operational and economic characteristics, the Company's revenue from contracts with customers is disaggregated by License and Transaction Fees and Equipment Sales, as reported in the Company's Condensed Consolidated Statements of Operations. The Company believes these revenue categories depict how the nature, amount, timing, and uncertainty of its revenue and cash flows are influenced by economic factors, and also represents the level at which management makes operating decisions and assesses financial performance.

Transaction Price Allocated to Future Performance Obligations

In determining the transaction price allocated to unsatisfied performance obligations, we did not include non-recurring charges. Further, we applied the practical expedient to not consider arrangements with an original expected duration of one year or less, which are primarily month to month rental agreements. The majority of contracts are considered to have a contractual term of between 36 and 60 months based on implied and explicit termination penalties. These amounts will be converted into revenue in future periods as work is performed, primarily based on the services provided or at delivery and acceptance of products, depending on the applicable accounting method.

The following table reflects the estimated fees to be recognized in the future related to performance obligations that are unsatisfied at the end of the period:

(\$ in thousands)	As of March 31, 2019	
2020	\$	2,865
2021		10,853
2022		9,032
2023		7,413
2024 and thereafter		5,799
Total	\$	35,962

Warranties and Returns

The Company offers standard warranties that provide the customer with assurance that its equipment will function in accordance with contract specifications. The Company's standard warranties are not sold separately, but are included with each customer purchase. Warranties are not considered separate performance obligations, and therefore, are estimated and recorded at the time of sale. The Company estimates an allowance for equipment returns at the date of sale on a monthly basis.

Accounts Receivable, Contract Assets and Contract Liabilities

A contract with a customer creates legal rights and obligations. As the Company performs performance obligations under customer contracts, a right to unconditional consideration is recorded as an account receivable.

Contract liabilities represent consideration received from customers in excess of revenues recognized (i.e., deferred revenue). Contract liabilities are classified as current or noncurrent based on the nature of the underlying contractual rights and obligations. The Company's contract liability (i.e., deferred revenue) balances are as follows:

(\$ in thousands)	Three months ended March 31,		Nine months ended March 31,	
	2019		2019	
Deferred revenue, beginning of the period	\$	1,437	\$	511
Plus: adjustment for adoption of ASC 606		—		1,127
Deferred revenue, beginning of the period, as adjusted		1,437		1,638
Deferred revenue, end of the period		1,322		1,322
Revenue recognized in the period from amounts included in deferred revenue at the beginning of the period		49		271

The change in the contract liabilities period-over-period is primarily the result of timing difference between the Company's satisfaction of a performance obligation and payment from the customer.

Contract Costs

The Company incurs costs to obtain contracts with customers, primarily in the form of commissions to sales employees. The Company recognizes as an asset the incremental costs of obtaining a contract with a customer if it expects to recover these costs. The Company currently does not incur material costs to fulfill its obligations under a contract once it is obtained but before transferring goods or services to the customer. At March 31, 2019, the Company had net capitalized costs to obtain contracts of \$0.3 million and \$1.3 million included in prepaid expenses and other current assets and other noncurrent assets on the condensed consolidated balance sheet, respectively.

Contract costs are amortized on a systematic basis consistent with the transfer to the customer of the goods or services to which the asset relates. A straight-line or proportional amortization method is used depending upon which method best depicts the pattern of transfer of the goods or services to the customer. In addition, these contract costs are evaluated for impairment by comparing, on a pooled basis, the expected future net cash flows from underlying customer relationships to the carrying amount of the capitalized contract costs.

In order to determine the appropriate amortization period for contract costs, the Company considers a number of factors, including expected early terminations, estimated terms of customer relationships, the useful lives of technology USAT uses to provide goods and services to its customers, whether future contract renewals are expected and if there is any incremental commission to be paid on a contract renewal. The Company amortizes these assets over the expected period of benefit. Costs to obtain a contract with an expected period of benefit of one year or less are expensed when incurred. During the three and nine months ended March 31, 2019, amortization of capitalized contract costs was \$0.1 million and \$0.2 million, respectively.

6. RESTRUCTURING/INTEGRATION COSTS

Subsequent to the Cantaloupe acquisition, the Company initiated workforce reductions to integrate the Cantaloupe business for which costs totaled \$2.1 million for the year ended June 30, 2018. The Company included these severance charges under “Integration and acquisition costs” within the Condensed Consolidated Statements of Operations, with the remaining outstanding balance included within “Accrued expenses” on the Condensed Consolidated Balance Sheet. Liabilities for severance will generally be paid during the next twelve months.

The following table summarizes the Company’s severance activity for the three and nine months ended March 31, 2019:

(\$ in thousands)	Workforce reduction
Balance at July 1, 2018	\$ 1,019
Plus: additions	137
Less: cash payments	(301)
Balance at September 30, 2018	855
Plus: additions	74
Less: cash payments	(538)
Balance at December 31, 2018	391
Plus: additions	29
Less: cash payments	(215)
Balance at March 31, 2019	\$ 205

7. FINANCE RECEIVABLES

Finance receivables consist of the following:

(\$ in thousands)	March 31, 2019	June 30, 2018
Finance receivables, net	\$ 6,119	4,603
Finance receivables due after one year, net	11,362	13,246
Total finance receivables, net of allowance of \$601 and \$12, respectively	\$ 17,481	\$ 17,849

The Company routinely evaluates outstanding finance receivables for impairment based on past due balances or accounts otherwise determined to be at a higher risk of loss. A finance receivable is classified as nonperforming if it is considered probable the Company will be unable to collect all contractual interest and principal payments as scheduled.

At March 31, 2019 and June 30, 2018, credit quality indicators consisted of the following:

(\$ in thousands)	March 31, 2019	June 30, 2018
Performing	\$ 17,481	\$ 17,849
Nonperforming	601	12
Total	\$ 18,082	\$ 17,861

Age Analysis of Past Due Finance Receivables

As of March 31, 2019

(\$ in thousands)	Current	30 and Under Days Past Due	31 – 60 Days Past Due	61 – 90 Days Past Due	Greater than 90 Days Past Due	Total Finance Receivables
QuickStart Leases	\$ 17,423	\$ 45	\$ 189	\$ 89	\$ 336	\$ 18,082

Age Analysis of Past Due Finance Receivables

As of June 30, 2018

(\$ in thousands)	Current	30 and Under Days Past Due	31 – 60 Days Past Due	61 – 90 Days Past Due	Greater than 90 Days Past Due	Total Finance Receivables
QuickStart Leases	\$ 17,609	\$ 56	\$ 7	\$ 56	\$ 133	\$ 17,861

Sale of Finance Receivables

The Company accounts for transfers of finance receivables as sales when it has surrendered control over the related assets. Whether control has been relinquished requires, among other things, an evaluation of relevant legal considerations and an assessment of the nature and extent of the Company's continuing involvement with the assets transferred. During the three months ended March 31, 2018, the Company transferred certain groups of finance receivables with no recourse to third-party financing entities for approximately \$2.1 million. The transfers were accounted for as sales with derecognition of the associated finance receivables. Gains and losses stemming from such transfers are immaterial.

Transfers of finance receivables that do not qualify for sale accounting are reported as collateralized borrowings. Accordingly, the related assets remain on the Company's balance sheet and continue to be reported and accounted for as if the transfer had not occurred. Cash proceeds from these transfers are reported as financing obligations (debt), with attributable interest expense recognized over the life of the related transactions. During December 2017, the Company transferred certain groups of finance receivables to third-party financing entities for approximately \$1.1 million. Such transfers are subject to recourse provisions for the first 3 months after the date of transfer, after which the recourse provisions expire. Accordingly, the related finance receivables remained on the balance sheet at December 31, 2017 and the cash proceeds of approximately \$1.1 million were reported as financing obligations at December 31, 2017. During March 2018, the recourse provisions expired resulting in the finance receivables and financing obligations being derecognized.

8. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share ("EPS") and diluted EPS are presented below:

(\$ in thousands, except per share data)	Three months ended March 31,	
	2019	2018 (as restated)
Numerator for basic and diluted loss per share		
Net loss	\$ (4,510)	\$ (3,223)
Preferred dividends	(334)	(334)
Net loss available to common shareholders	\$ (4,844)	\$ (3,557)
Denominator for basic loss per share - Weighted average shares outstanding		
	60,065,053	53,637,085
Effect of dilutive potential common shares	—	—
Denominator for diluted loss per share - Adjusted weighted average shares outstanding	60,065,053	53,637,085
Basic loss per share	\$ (0.08)	\$ (0.07)
Diluted loss per share	\$ (0.08)	\$ (0.07)

(\$ in thousands, except per share data)	Nine months ended March 31,	
	2019	2018 (as restated)
Numerator for basic and diluted loss per share		
Net loss	\$ (21,487)	\$ (9,588)
Preferred dividends	(668)	(668)
Net loss available to common shareholders	\$ (22,155)	\$ (10,256)
Denominator for basic loss per share - Weighted average shares outstanding		
	60,059,594	51,101,813
Effect of dilutive potential common shares	—	—
Denominator for diluted loss per share - Adjusted weighted average shares outstanding	60,059,594	51,101,813
Basic loss per share	\$ (0.37)	\$ (0.20)
Diluted loss per share	\$ (0.37)	\$ (0.20)

Antidilutive shares excluded from the calculation of diluted loss per share were 1,240,302 and 1,240,302 for the three and nine months ended March 31, 2019 and 1,090,455 and 1,090,455 for the three and nine months ended March 31, 2018.

9. GOODWILL AND INTANGIBLES

Intangible asset balances and goodwill consisted of the following:

(\$ in thousands)	As of March 31, 2019			Amortization Period
	Gross	Accumulated Amortization	Net	
Intangible assets:				
Non-compete agreements	\$ 2	\$ (2)	\$ —	2 years
Brand and tradenames	1,695	(413)	1,282	3 - 7 years
Developed technology	10,939	(2,804)	8,135	5 - 6 years
Customer relationships	19,049	(1,510)	17,539	10 - 18 years
Total intangible assets	\$ 31,685	\$ (4,729)	\$ 26,956	
Goodwill	64,149	—	64,149	Indefinite
Total intangible assets & goodwill	\$ 95,834	\$ (4,729)	\$ 91,105	
(\$ in thousands)	As of June 30, 2018			Amortization Period
	Gross	Accumulated Amortization	Net	
Intangible assets:				
Non-compete agreements	\$ 2	\$ (2)	\$ —	2 years
Brand	1,695	(226)	1,469	3 - 7 years
Developed technology	10,939	(1,421)	9,518	5 - 6 years
Customer relationships	19,049	(711)	18,338	10 - 18 years
Total intangible assets	\$ 31,685	\$ (2,360)	\$ 29,325	
Goodwill	64,149	—	64,149	Indefinite
Total intangible assets & goodwill	\$ 95,834	\$ (2,360)	\$ 93,474	

For the three and nine months ended March 31, 2019 there was \$0.8 million and \$2.4 million in amortization expense related to intangible assets, respectively, as compared to the three and nine months ended March 31, 2018, for which there was \$0.8 million and \$1.3 million in amortization expense related to intangible assets, respectively.

As set forth in the Merger Agreement, the Company finalized a post-working capital adjustment of \$0.3 million during the quarter ended March 31, 2018. Accordingly, this post-working capital adjustment is reflected within goodwill as of June 30, 2018.

10. DEBT AND OTHER FINANCING ARRANGEMENTS

The Company's debt and other financing arrangements as of March 31, 2019 and June 30, 2018 consisted of the following:

(\$ in thousands)	As of March 31, 2019	As of June 30, 2018
Revolving Credit Facility	\$ 10,000	\$ 10,000
Term Loan	2,083	23,333
Other, including capital lease obligations	1,639	2,689
Less: unamortized issuance costs	(8)	(256)
Total	13,714	35,766
Less: debt and other financing arrangements, current	(13,202)	(34,639)
Debt and other financing arrangements, noncurrent	\$ 512	\$ 1,127

Details of interest expense presented on the Condensed Consolidated Statements of Operations are as follows:

(\$ in thousands)	Three months ended March 31,		Nine months ended March 31,	
	2019	2018 (as restated)	2019	2018 (as restated)
Heritage Line of Credit	\$ —	\$ —	\$ —	\$ 203
Revolving Credit Facility	170	215	526	259
Term Loan	456	298	1,158	540
Other interest expense	287	350	834	1,104
Total interest expense	\$ 913	\$ 863	\$ 2,518	\$ 2,106

Avidbank 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 revolving line of credit facility (the “Avidbank Line of Credit”) of up to \$7.0 million and a three-year term loan to the Company in the principal amount of \$3.0 million (the “Avidbank Term Loan”). The Amendment increased the amount available under the Avidbank Line of Credit to \$7.5 million less the amount then outstanding under the Avidbank Term Loan. 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. The Avidbank 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 Avidbank 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 Avidbank Term Loan. The Avidbank 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.

Heritage Line of Credit

In March 2016, the Company entered into a Loan and Security Agreement with Heritage Bank of Commerce (“Heritage Bank”), providing for a secured revolving line of credit in an amount of up to \$12.0 million (the “Heritage Line of Credit”) at an interest rate calculated based on the Federal Reserve’s Prime plus 2.25%. The Heritage Line of Credit and the Company’s obligations

under the Heritage Loan Documents were secured by substantially all of the Company's assets, including its intellectual property. The Company utilized approximately \$7.0 million under the Heritage Line of Credit to satisfy the existing Avidbank Line of Credit and related Avidbank Term Loan.

During March 2017, the Company entered into the third amendment with Heritage Bank that extended the maturity date of the Line of Credit from March 29, 2017 to September 30, 2018.

On November 9, 2017, the Company paid all amounts due on the Loan and Security Agreement with Heritage Bank of Commerce. The Company recorded a charge of \$0.1 million to write-off any remaining debt issuance costs related to the Line of Credit to interest expense in the quarter ending December 31, 2017. Pursuant to such payment, all commitments of Heritage Bank of Commerce were terminated, and the Heritage Loan and Security Agreement was terminated.

Revolving Credit Facility and Term Loan

On November 9, 2017, in connection with the acquisition of Cantaloupe, the Company entered into a five year credit agreement among the Company, as the borrower, its subsidiaries, as guarantors, and JPMorgan Chase Bank, N.A., as the lender and administrative agent for the lender (the "Lender"), pursuant to which the Lender (i) made a \$25 million Term Loan to the Company and (ii) provided the Company with the Revolving Credit Facility under which the Company may borrow revolving credit loans in an aggregate principal amount not to exceed \$12.5 million at any time.

The proceeds of the Term Loan and borrowings under the Revolving Credit Facility, in an aggregate principal amount equal to \$35.0 million, were used by the Company to finance a portion of the purchase price for the acquisition of Cantaloupe (\$27.8 million) and repay existing indebtedness to Heritage Bank of Commerce (\$7.2 million). Future borrowings under the Revolving Credit Facility may be used by the Company for working capital and general corporate purposes of the Company and its subsidiaries. The principal amount of the Term Loan is payable quarterly beginning on December 31, 2017 and the Term Loan, all advances under the Revolving Credit Facility, and all other obligations must be paid in full at maturity, on November 9, 2022.

Loans under the five year credit agreement bear interest, at the Company's option, by reference to a base rate or a rate based on LIBOR, in either case, plus an applicable margin determined quarterly based on the Company's Total Leverage Ratio as of the last day of each fiscal quarter. The applicable interest rate on the loans for the three and nine months ended March 31, 2019 is LIBOR plus 4%. The Term Loan and Revolving Credit Facility contain customary representations and warranties and affirmative and negative covenants and require the Company to maintain a minimum quarterly Total Leverage Ratio and Fixed Charge Coverage Ratio. The Revolving Credit Facility and Term Loan also require the Company to furnish various financial information on a quarterly and annual basis.

Due to the Company's delay in filing its periodic reports, between September 28, 2018, and September 30, 2019, the parties entered into various agreements to provide for the extension of the delivery of the Company's financial information required under the terms of the credit agreement. In connection with these agreements, the Company incurred extension fees due to the lender, totaling \$0.2 million, between September 28, 2018 and June 30, 2019. Additionally, during the quarter ended March 31, 2019 the Company prepaid \$20.0 million of the balance outstanding under the Term Loan, \$0.6 million of which was applied to the installment payment due on March 31, 2019 and the remainder of which was applied to the last repayment installment obligations due under the Term Loan. On September 30, 2019, the Company prepaid the remaining principal balance of the Term Loan of \$1.5 million and agreed to permanently reduce the amount available under the Revolving Credit Facility to \$10 million which represented the outstanding balance on the date thereof. The agreements also provide that the Company cannot incur additional borrowings on the Revolving Credit Facility without the Lender's prior consent. Further, the parties agreed that the applicable interest rate on the Revolving Credit Facility and Term Loan will be LIBOR plus 4% until such time as the Company delivers certain financial information required under the credit agreement.

On March 29, 2019 and September 18, 2019, the Company obtained waivers of an event of default under the credit agreement. The event of default is the result of the Company having maintained deposits on account with a financial institution in excess of the amounts permitted by the credit agreement and not having transferred certain deposit accounts to the Lender. The waiver requires the Company to remedy the event of default by March 31, 2020 by which time the Company expects to be in compliance with the underlying covenant. As of June 30, 2019, the Company is not in compliance with the fixed charge coverage ratio and the total leverage ratio, which represents an event of default under the credit agreement. The Company has classified all amounts outstanding under the Revolving Credit Facility and Term Loan as current liabilities as of March 31, 2019 and June 30, 2018.

Other Long-Term Borrowings

In connection with the acquisition of Cantaloupe, the Company assumed debt of \$1.8 million with an outstanding balance of \$0.9 million and \$1.4 million as of March 31, 2019 and June 30, 2018 respectively, comprised of: (i) \$0.3 million and \$0.4 million of

promissory notes bearing an interest rate of 5% and maturing on April 5, 2020 with principal and interest payments due monthly; (ii) \$0.5 million and \$0.7 million of promissory notes bearing an interest rate of 10% and maturing on April 1, 2021 with principal and interest payments due quarterly; and (iii) \$0.2 million and \$0.3 million of promissory notes bearing an interest rate of 12% and maturing on December 15, 2019 with principal and interest payments due quarterly.

The Company periodically enters into capital lease obligations to finance certain office and network equipment for use in its daily operations. At March 31, 2019 and June 30, 2018, such capital lease obligations were \$0.2 million and \$0.4 million, respectively. The interest rates on these obligations range from approximately 5.6% to 9.0% and the lease terms range from 2 to 5 years.

11. FAIR VALUE MEASUREMENTS

The Company's financial instruments, principally accounts receivable, cash equivalents, accounts payable, accrued expenses, and short-term finance receivables, 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 approximate their carrying value as such instruments are at market rates currently available to the Company.

12. INCOME TAXES

On December 22, 2017, the "Tax Cuts and Jobs Act" (the "Act") was signed into law. Substantially all of the provisions of the Act are effective for taxable years beginning after December 31, 2017. The Act includes significant changes to the Internal Revenue Code of 1986 (as amended, the "Code"), including amendments which significantly change the taxation of individuals and business entities. The Act contains numerous provisions impacting the Company, the most significant of which reduces the Federal corporate statutory tax rate from 34% to 21%, as well as the elimination of the corporate alternative minimum tax ("AMT") and changing how existing AMT credits can be realized, the creation of a new limitation on deductible interest expense, and the change in rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

The various provisions under the Act deemed most relevant to the Company have been considered in preparation of its condensed consolidated financial statements as of March 31, 2019. To the extent that clarifications or interpretations materialize in the future that would impact upon the effects of the Act incorporated into the March 31, 2019 financial statements, those effects will be reflected in the future as or if they materialize.

For the three months ended March 31, 2019, the Company recorded an income tax provision of \$23 thousand, which primarily relates to state income and franchise taxes. For the nine months ended March 31, 2019, the Company recorded an income tax provision of \$60 thousand. The provisions are based upon actual loss before income taxes for the nine months ended March 31, 2019, as the use of an estimated annual effective income tax rate does not provide a reliable estimate of the income tax provision.

The accounting for deferred income taxes in the acquisition of Cantaloupe did not consider the potential effects of IRS Code Section 382 relating to the limitation on use of operating loss carryforwards created by Cantaloupe for its changes in ownership because the analysis required for such determination has not yet been completed. If upon completion of such analysis there are limitations on the use of operating loss carryforwards created by Cantaloupe totaling approximately \$16.3 million. The potential impact is immaterial to the condensed consolidated financial statements due to the existing valuation allowance recorded against the Company's deferred tax assets.

For the three and nine months ended March 31, 2018, an income tax provision and benefit of \$20 thousand and \$109 thousand, respectively, were recorded. The provisions are based upon actual loss before income taxes for the nine months ended March 31, 2018, as the use of an estimated annual effective income tax rate does not provide a reliable estimate of the income tax provision.

13. EQUITY

On July 25, 2017, the Company closed its underwritten public offering of 9,583,332 shares of its common stock at a public offering price of \$4.50 per share. The foregoing included the full exercise of the underwriters' option to purchase 1,249,999 additional shares from the Company. The gross proceeds to the Company from the offering, before deducting underwriting discounts and commissions and other offering expenses, was approximately \$43.1 million.

On November 6, 2017, the Company entered into a Merger Agreement with Cantaloupe for cash and 3,423,367 shares of the company's stock valued at \$23.3 million. Refer to Note 4 for details on the Merger Agreement.

WARRANTS

The Company had 23,978 warrants outstanding as of March 31, 2019 and June 30, 2018, all of which were exercisable at \$5.00 per share. The warrants have an expiration date of March 29, 2021.

STOCK OPTIONS

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

In July 2017, 135,000 stock options were granted for 11 employees vesting 1/3 on July 26, 2018, 1/3 on July 26, 2019 and 1/3 on July 26, 2020 expiring if not exercised prior to July 26, 2022. The options are intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended.

In August 2017, the Company awarded stock options to its Chief Executive Officer and Chief Financial Officer to purchase up to 19,047 and 25,000 shares respectively of common stock at an exercise price of \$5.25 per share. The Chief Executive Officer options vest on August 16, 2018, expiring if not exercised prior to August 16, 2024. The Chief Financial Officer options vest 1/3 on August 16, 2018, 1/3 on August 16, 2019 and 1/3 on August 16, 2020, expiring if not exercised prior to August 16, 2024. The Chief Executive Officer options are intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, and the Chief Financial Officer options are non-qualified stock options.

In September 2018, the Company awarded stock options to 102 employees to purchase up to 400,000 shares of common stock at an exercise price of \$8.75.

The fair value of options granted during the nine months ended March 31, 2019 and 2018 was determined using the following assumptions:

	Nine months ended March 31,	
	2019	2018
Expected volatility (percent)	58.4 - 70.9%	50.2 - 50.9%
Expected life (years)	4.5	4.5
Expected dividends	0.0%	0.0%
Risk-free interest rate (percent)	2.23 - 2.91%	1.64 - 1.75%
Number of options granted	420,000	179,047
Weighted average exercise price	\$ 8.52	\$ 5.66
Weighted average grant date fair value	\$ 4.27	\$ 2.42

Stock based compensation related to all stock options for the three and nine months ended March 31, 2019 was \$0.2 million and \$0.6 million, respectively, and \$0.1 million and \$0.4 million for the three and nine months ended March 31, 2018, respectively.

COMMON STOCK

On July 2, 2018, 6,677 shares were awarded to each non-employee director for a total of 40,062 shares. The shares vest on a monthly basis over the two year period following July 2, 2018. The total expense recognized for these grants for the nine months ended March 31, 2019 was \$0.4 million.

During the nine months ended March 31, 2019, the Company awarded an aggregate of 7,282 shares to two non-employee directors in satisfaction of board fees.

LONG TERM INCENTIVE PLANS

The Board approved the Fiscal Year 2018 Long-Term Stock Incentive Plan (the "2018 LTI Stock Plan") which provides that executive officers would be awarded shares of common stock of the Company in the event that certain metrics relating to the Company's 2018 fiscal year would result in specified ranges of year-over-year percentage growth. The metrics are total number

of connections as of June 30, 2018 as compared to total number of connections as of June 30, 2017 (40% weighting) and adjusted EBITDA earned during the 2018 fiscal year as compared to the adjusted EBITDA earned during the 2018 fiscal year (60% weighting). If none of the minimum threshold year-over-year percentage target goals are achieved, the executive officers would not be awarded any shares. If all of the year-over-year percentage target goals are achieved, the executive officers would be awarded shares having the following value: Chief Executive Officer - \$840,000 (160% of base salary), Chief Financial Officer - \$300,000 (100% of base salary), Chief Services Officer - \$275,000 (100% of base salary), and Chief Product Officer - \$280,000 (100% of base salary and to be prorated to reflect the actual period of employment during the fiscal year). If all of the maximum distinguished year over year percentage target goals are achieved, the executive officers would be awarded shares having the following value: Chief Executive Officer - \$1,260,000 (240% of base salary), Chief Financial Officer - \$450,000 (150% of base salary), Chief Services Officer - \$412,500 (150% of base salary), and Chief Product Officer - \$420,000 (150% of base salary and to be prorated to reflect the actual period of employment during the fiscal year). Assuming the minimum threshold year-over-year percentage target goal would be achieved for a particular metric, the number of shares to be awarded for that metric would be determined on a pro rata basis, provided that the award would not exceed the maximum distinguished award for that metric. The shares awarded under the 2018 LTI Stock Plan would vest as follows: one-third at the time of issuance; one-third on June 30, 2019; and one-third on June 30, 2020.

The Company did not award any long-term stock incentive compensation to its executive officers during the 2019 fiscal year.

The Company had long-term stock incentive plans (“LTI”) in prior fiscal years for its then executive officers. Stock based compensation related to the LTI plans was as follows in the three and nine months ended March 31, 2019 and 2018:

(\$ in thousands)	Three months ended March 31,		Nine months ended March 31,	
	2019	2018 (as restated)	2019	2018 (as restated)
FY18 LTI Plan	\$ 30	\$ 77	\$ 91	\$ 195
FY17 LTI Plan	17	64	68	192
FY16 LTI Plan	—	9	—	28
Total	\$ 47	\$ 150	\$ 159	\$ 415

14. COMMITMENTS AND CONTINGENCIES

During the current fiscal year, the Company entered into a lease agreement for its operations in Denver, Colorado, which commenced on August 1, 2019. The new location consists of 16,713 square feet and will expire on December 31, 2026. The lease includes monthly rental payments, commencing on January 1, 2020, of \$45 thousand, and will increase each year up to a maximum base rent of approximately \$53 thousand.

During fiscal year 2018, the Company expanded the leased space for its headquarters in Malvern, Pennsylvania to a total of 23,138 square feet. The Company’s monthly base rent is approximately \$48 thousand with a lease expiration date of November 30, 2023.

Through the Cantaloupe acquisition, during fiscal year 2018, the Company acquired a noncancelable operating lease pertaining to Cantaloupe’s headquarters based in San Francisco, California. The leased premise consists of approximately 8,400 square feet and calls for rental payments of approximately \$45 thousand due each month up to a maximum monthly base rent of approximately \$47 thousand through its January 31, 2020 expiration date.

The Company is involved in various legal proceedings which are described in Item 1 of Part II of this Form 10-Q/A.

15. SUBSEQUENT EVENTS

For a discussion of the Company's significant subsequent events, please refer to the Form 10-K/A which has been filed concurrently with this Form 10-Q/A.

Part II - Other Information**Item 6. Exhibits.**

Exhibit Number	Description
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.
101	The following financial information from our Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2019, filed with the SEC on November 14, 2019, formatted in Extensible Business Reporting Language (XBRL): (1) the Consolidated Balance Sheets as of March 31, 2019 and June 30, 2018, (2) the Consolidated Statements of Operations for the three-month and nine-month periods ended March 31, 2019 and 2018, (3) the Consolidated Statements of Shareholders' Equity for the nine-month period ended March 31, 2019, (4) the Consolidated Statements of Cash Flows for the nine-month period ended March 31, 2019 and 2018, and (5) the Notes to Consolidated Financial Statements.

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: November 14, 2019

/s/ Donald W. Layden, Jr.

Donald W. Layden, Jr.,

Interim Chief Executive Officer

Date: November 14, 2019

/s/ Glen E. Goold

Glen E. Goold

Interim Chief Financial Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donald W. Layden, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q/A 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.

Date: November 14, 2019

/s/ Donald W. Layden, Jr.

Donald W. Layden, Jr.

Interim Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Glen E. Goold, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A 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.

Date: November 14, 2019

/s/ Glen E. Goold

Glen E. Goold

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/A for the period ended March 31, 2019 (the "Report"), I, Donald W. Layden, Jr., 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: November 14, 2019

/s/ Donald W. Layden, Jr.

Donald W. Layden, Jr.

Interim 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/A for the period ended March 31, 2019 (the "Report"), I, Glen E. Goold, 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: November 14, 2019

/s/ Glen E. Goold

Glen E. Goold

Interim Chief Financial Officer