

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-KSB

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

For the fiscal year ended June 30, 1999 Commission file number: 33-70882

OR

Transition report pursuant to section 13 or 15(d) of the  
Securities Exchange Act of 1934 [No Fee Required]

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

USA TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania 23-2679963  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

200 Plant Avenue, Wayne, PA. 19087  
Address of principal executive offices) (Zip Code)

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

NONE  
(Securities registered under Section 12(b) of the Exchange Act)

NONE  
(Securities registered pursuant to Section 12(g) of the Exchange Act)

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 periods that the registrant was required to for such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405, of regulations S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB.

Transitional Small Business Disclosure Format Yes  No

Registrant's total revenues for its most recent fiscal year.....\$3,890,516.

As of September 23, 1999, there were outstanding 6,425,334 shares of Common Stock, no par value, and 626,077 shares of Series A Convertible Preferred Stock, no par value.

The company's voting securities are traded on the Over the Counter (OTC) Electronic Bulletin Board. The aggregate market value of the company's voting securities held by non-affiliates of the Registrant was \$12,673,271 on September 23, 1999 based upon the average bid and asked price of the Registrant's Common Stock and Preferred Stock on that date.

PART I

Item 1. Business

USA Technologies, Inc., a Pennsylvania corporation (the "Company") was founded in January 1992. The Company is a leading provider and licensor of automated, credit card activated control systems for the copying, debit card and personal computer industries. The Company's devices make available credit card payment technology in connection with the sale of a variety of products and services. The Company generates its revenues from the direct sale of its control systems and the resale of configured office products, from monthly administrative fees paid by locations utilizing its control systems, and from retaining a portion of the monies generated from all credit card transactions conducted through its control systems.

The Company has developed an automated, credit card activated control system to be utilized with photocopying machines, facsimile machines, computer printers, and debit card purchase/revalue stations. The control systems allow consumers to use credit cards to pay for use of these products.

The Company has also developed the Public PC(R), which is an automated credit card activated control system to be used in connection with a personal computer, including on-line services, such as the Internet. This product enables locations to offer the use of personal computers to the public on an "as needed" basis utilizing credit cards as a method of payment. In addition the Company introduced to the university library market its Automated Print Payment System(TM) (APPS). This system enables libraries to charge users via credit/debit cards for the printed output from computer networks, thus providing a new source of revenue to cover their increasing costs of operations.

During fiscal year 1997, the Company introduced the Business Express(R), which is being marketed to the hospitality industry as an amenity to the business traveler. The Business Express(R) combines the Company's existing applications for computers, copiers, and facsimiles into a kiosk type configuration. All services provided are credit card activated. The Business Express(R) continues the Company's move toward the sale of the Company's proprietary equipment to operators rather than the revenue sharing arrangements employed in past years. The Company still retains all rights to software and proprietary technology which it licenses to location operators for their exclusive use. As of June 30, 1999, 304 Business Express(R) units are installed.

During the last part of the current fiscal year, the Company introduced a product line extension to its flagship Business Express(R) product, called the Business Express(R) Limited Service Series (LSS). The LSS has copier and fax capabilities plus laptop printing, dataport capabilities and credit card activated phone. The LSS is targeted to the heart of the hospitality industry, which includes mid-market, limited service and economy properties. As of June 30, 1999, three LSS units are included in the total of 304 Business Express(R) units installed.

The Company is beginning to explore the possibilities of apartment buildings as a market for its technology. Approximately 27,000 operators of apartment buildings in the United States have been identified. As of the end of the fiscal year, one such location has been installed.

The Company generates its revenues from the sale of equipment utilizing its control systems, from retaining a portion of the revenues generated from all credit card transactions conducted through its control systems, and from monthly administrative fees from each location utilizing its control systems. The Company has entered into a joint marketing agreement with Minolta Corporation, and has been designated as an authorized equipment reseller by Hewlett-Packard Company and International Business Machines Corporation. The Company believes that it benefits from the association of its control systems with the well-known brands of business equipment manufactured by these companies.

On September 24, 1997, the Company entered into a Joint Venture Agreement ("JV") with Mail Boxes Etc. ("MBE"), in order to sell and market automated, credit card activated business centers under the name MBE(TM) Business Express(R) to the hospitality industry. The MBE(TM) Business Express(R) bundles together the same components as the Business Express(R), but under the MBE brand name. In addition, the MBE(TM) Business Express(R) includes a dial-through service to a nearby MBE store making available the products and services of the store. For the fiscal year ended June 30, 1999, the MBE Joint Venture has sold and installed 151 MBE(TM) Business Express(R) business centers. The Company terminated the JV in May 1999 and is currently involved in legal proceedings with MBE. Notwithstanding these proceedings, the Company continues to service all field installations without interruption, and to carry on business with all customers of the JV. For further details, see Item 3., Legal Proceedings.

In 1998, Prime Hospitality Corp. ("Prime") entered into an agreement with the MBE Joint Venture, pursuant to which Prime would purchase a minimum of 100 MBE(TM) Business Express(R) units for installation at Prime's owned and managed hotels (primarily the AmeriSuites brand). As of June 30, 1999, all but two of the installations have been completed, generating total revenues of approximately \$1.9 million. Prime adopted the MBE(TM) Business Express(R) as a brand standard at all of its AmeriSuites properties.

During the past year the Company has focused on developing a new terminal, trademarked "e-port". It contains all the functionality of the current TransAct(TM) terminal for credit card processing, control and data management, and in addition would offer capability for public access electronic commerce and advertising using the Internet. With the development of e-Port(TM), USA Technologies has positioned itself to claim a piece of two important market spaces within the new "Internet" economy - electronic commerce and pervasive computing.

In May, 1999 the Company signed an agreement with International Business Machines Corporation ("IBM") whereby IBM agreed to be the executional partner for certain aspects of the Company's business, including project management services, asset procurement, configuration and testing of equipment, site preparation, installation, maintenance services, and asset management. This agreement expands an earlier JV agreement from 1,000 to 5,000 locations, and expands the array of USA products which are eligible for IBM installation. The Company also is developing a proposal with IBM whereby IBM will provide value added design, development, fulfillment and product warranty services for the Company's e-port(TM) product. The goal is to benefit from IBM research, purchasing, manufacturing and global services to provide the Company with shortened time to market, product excellence, and a lower total cost of goods. IBM has also signed a letter of intent to help the Company design an enhanced version of the network which will underlie all transaction processing for e-port(TM), including advertising and e-commerce.

The Company has entered into a corporate agreement on May 14, 1999 with Choice Hotels International (which includes the Comfort, Clarion, Quality, Sleep, Econo Lodge, Rodeway and Mainstay brands) which establishes USA as the only endorsed vendor of business center products for its over 3,000 properties. This agreement reflects Choice's commitment to promote the

Company's LSS internally to its own hotels. Also, the Company has entered into a corporate agreement with Promus Hotel Corporation (Embassy Suites, Hampton, and Doubletree brands) which establishes itself as a preferred supplier of business center products for those brands. In addition, the Company's Business Express(R) has been approved and recommended as a solution for business center needs by Marriott for its hotels.

On June 7, 1999, Ikon Office Solutions signed a letter of intent with the Company wherein it stated its intent to market and sell the Company's Transact solutions to businesses through its sales representatives. Ikon, with fiscal 1998 revenues of more than \$5.6 billion, is one of the world's leading office technology companies, providing copier and printing systems, computer networking and digital document services. Training of Ikon sales representatives has begun, and sales to Ikon are expected to begin in the second quarter of fiscal 2000.

For the years ended June 30, 1999 and 1998, the Company has spent approximately \$198,000 and \$199,000, respectively for the development of its proprietary technology. These amounts include the expense of outside consultants and contractors as well as compensation paid to certain of the Company's employees and are reflected in compensation expense in the accompanying consolidated financial statements.

As of June 30, 1999, the Company had 1,119 Business Express(R) control systems, 36 Copy Express(TM) control systems, 27 Debit Express(TM) control systems, 10 Fax/Printer Express(TM) control systems, and 41 Public PC(R) control systems located at various hotels and libraries throughout the United States and Canada. Through June 30, 1999 the total gross revenues received by the Company from these systems, although growing, has not been sufficient to cover operating expenses.

The Company has been certified by PNC Merchant Services (a subsidiary of First Data Corporation), a leading credit card processor in the United States. PNC Merchant Services has extended to the Company a fixed rate percentage processing charge in connection with the credit card transactions conducted through the Company's control systems. This charge is payable by the Company (not the locations) out of its share of the gross proceeds.

#### Industry Trends

With trends over the last twenty years indicating an ever increasing customer reliance on the use of credit cards as a method of payment, the Company believes the future of purchasing retail products and services is in credit cards rather than cash. Consumers are constantly searching for ways to purchase quality products and services in the most convenient manner. Examples of this trend include the increasing use of unattended Automated Teller Machines (ATM's) in banking transactions and the use of unattended, self-service gasoline pumps with credit and debit card payment capabilities. Consumers are becoming more accustomed to using credit cards in an ever increasing number of retail and service settings. They increasingly use mail order, telephone and the Internet to order goods and services and use credit cards to pay for them. There are over a billion credit cards in the United States. The Company's products reflect this overall trend and feature automated credit card control systems. The Company has focused its efforts towards the personal computer, copier, and debit card industries.

Further, trends in the space of electronic commerce and pervasive computing are encouraging signs for e-Port(TM):

>> By the year 2003, 500 million internet users will be conducting \$1.3 trillion in commerce over the net (versus 160 million users conducting \$50

billion in 1998). This increased use would amount to two new users per second.

>> By the year 2001, consumer used pervasive computing devices/network appliances will outship desktop PC shipments to homes - nearly 20 million per year by 2001.

#### Credit Card Processing

Each of the Company's credit card activated control devices records and transmits all transaction data to the Company, and the Company then forwards such data to the credit card processor. After receiving transaction information from the Company, the credit card processor electronically transfers the funds (less the credit card processor's charge) to the Company. The Company then forwards to the location its share of the funds.

The Company and each location have agreed on a percentage split of the gross proceeds from the Company's device. The credit card processor's fees and cost to forward the location's share of the gross proceeds are all paid for out of the Company's portion of the gross revenue.

The Company currently retains a portion of the gross revenues from each device. If the Company has sold the equipment to the location, the portion retained is generally 5% of the gross revenues. In cases where the Company continues to own the equipment, the portion retained can be as high as 90% of gross revenues. In addition the Company charges a fixed monthly management fee which is generally \$20-\$25 per control device.

#### Product Lines

##### The Business Express(R)

The hotel/motel hospitality industry continues to expand, but has become more competitive as chains increase their efforts to attract the most dominant and profitable customer: the business traveler. Business travelers and conference attendees account for the majority of hotel occupancy, stay longer and spend more per visit than the leisure traveler. For these reasons, hotels have become very sensitive and responsive to the needs and preferences of the business traveler. The Business Express(R) enables a hotel to address these needs in a comprehensive and cost effective manner, while simultaneously generating incremental revenue.

The Business Express(R) utilizes the Company's existing applications for computers, copiers, and facsimile equipment, and combines them into a branded product. The Business Express(R) bundles the Public PC(R) unit, the Copy Express(TM) unit, and the Fax Express(TM) unit, into a functional kiosk type work station. All devices are credit card activated, therefore eliminating the need for an attendant normally required to provide such services.

##### The MBE(TM) Business Express(R)

The MBE(TM) Business Express(R) bundles together the same components as the Business Express(R): Public PC(R), Copy Express(TM), and Fax Express(TM), but under the MBE brand name. In addition, the MBE(TM) Business Express(R) includes a dial-through service to a nearby MBE store making available the products and services of the store.

The Company terminated the JV in May 1999 and is presently engaged in legal proceedings with MBE which are set forth in detail in the Legal Proceedings section.

#### The Copy Express(TM)

Traditionally, customers wishing to use a photocopying machine have either used a prepaid, stored value card or cash. In most instances, this places a burden on employees of the facility to provide a number of services unrelated to their primary jobs, such as providing change and collecting/counting/reloading coins. With the Copy Express(TM), the attendant no longer needs to interact with the customers for these purposes.

The Copy Express(TM) provides a cashless method to pay for the use of photocopying machines. The device is attached to the photocopying machine, computer printer, or microfilm/fiche printer in a similar manner as attaching a standard coin acceptor. The device can be attached to either existing or new equipment. The control system enables customers to photocopy documents with the use of a credit card.

#### The Debit Express(TM)

Many "closed" environments such as universities or hospitals utilize a private card known as a debit or "stored value" card, to store cash value. The system works by encouraging customers (by discounting the price of the products or services) to transfer lump sum cash values onto a magnetic stripe or imbedded chip card that can be used to activate equipment within the closed environment. As the cardholder uses the card to purchase products or services the cash value is deducted from the total value on the card. Typically, the cards are purchased from attendants or from machines which accept coins or dollar bills.

The Company's Debit Express(TM) enables customers to purchase or revalue their debit cards with the swipe of a credit card and eliminates the need for cash or for an attendant to handle cash or provide change. The Debit Express(TM) eliminates any reliance on cash by allowing customers to use a valid credit card to purchase or place additional value on a debit card.

#### The Public PC(R)

The Company believes that the growing dependence on personal computers has created an environment where there is a need for access to personal computers by the general public on an "as needed" basis. To meet this need, the Company has developed the Public PC(R). Through June 30, 1999, the Company has an installed base of 38 units in libraries and retail locations. The device enables the public to utilize personal computers and/or the services they offer on an "as-needed" basis. The system is designed so that the computer cannot be used until a valid credit card is swiped through the control system. Once the user is authorized to proceed, the system has the ability to charge for time in use, printed output, and any modem activity.

The Company believes that the personal computer is becoming an integral part of how people access and utilize the information available to them. The Company believes that the majority of libraries do not currently offer general use personal computers to their patrons. The Company will pursue print shops, cyber cafes, hotels, airports, convention and conference centers, and various retail outlets as potential customers.

## The e-Port(TM)

e-Port(TM) contains all the functionality of the current TransAct(TM) terminal for credit card processing, control and data management, and in addition would offer capability for public access electronic commerce and advertising using the Internet. With e-Port(TM), USA Technologies has positioned itself to claim a piece of two important market spaces within the new "Internet" economy -- electronic commerce and pervasive computing. e-Port(TM) takes e-commerce to the streets in the sense that it enables e-commerce to be transacted away from the computer. This offers internet merchants an extension of their business without brick and mortar outlays. It could be considered a low cost "physical" location for "virtual" merchants.

e-Port(TM) will possibly give consumers the opportunity to engage in interactive advertising and e-Commerce while making routine purchases at millions of points of sale - including our Business Express(R) locations, vending machines, and convenience stores. The US markets for this device, and approximate sizes, are estimated at: vending - 6 million locations; retail points of sale - 7.5 million devices with expected shipments of 2 million devices in year 2000; and the Company's credit card activated business equipment.

## TransAct(TM) as a Stand Alone Product

USA Technologies produced and patented TransAct(TM), a cashless transaction terminal that enables secure, low cost credit transactions to take place. As the nerve center for USA's Business Express(R) product line, TransAct(TM) currently enables over 400 automated business center locations, that benefit from TransAct's ability to provide 24/7 business center accessibility, secure transaction settlements and voice and display instructions for users. The installed locations of Business Express(R) indicates that TransAct(TM) works effectively to transform a la carte office components into automated, credit card-operated, revenue centers.

To effectively penetrate the "pay as you go" business service markets within the retail, university, transportation and apartment communities, three standardized TransAct(TM) packages have been developed, priced and launched to office component dealers who already service these markets. The interest from these dealers has been excellent, and the Company anticipates that the development of a dealer channel to sell TransAct(TM) units will increase the licensing and usage revenue streams that USA currently enjoys.

## Marketing

The Company is currently marketing its products through its full-time sales staff consisting of six salespeople and one marketing director, to hotel and retail locations, either directly or through facility management companies servicing these locations. The Company believes the agreements with Marriott, Choice Hotels International, and Promus Hotel Corporation are an important component of the Company's effort to market the Business Express(R) to the hospitality industry because they provide instant brand name recognition.

## Procurement

The Company's control system devices consist of a card reader, printer, amplifier, circuit board and micro chip in a specially designed housing. The devices are currently manufactured to the Company's design specification by an independent contractor, LMC - Autotech Technologies, LP. As of September 28, 1999, the Company has no outstanding orders with LMC.

The Company anticipates obtaining its complete computer systems (other than the control system) through IBM. As of September 28, 1999, the Company has adequate inventory, and has no outstanding orders through IBM.

## Competition

There are currently other businesses offering an unattended, credit card activated control system for use in connection with copiers, printers,

general use personal computers, facsimile machines, Internet and e-mail access, and debit card purchase/revalue stations. In addition, the businesses which have developed unattended, credit card activated control systems currently in use in connection with gasoline dispensing, public telephones, prepaid telephone cards, ticket dispensing machines, vending machines, or facsimile machines, are capable of developing products or utilizing their existing products in direct competition with the Company. Many of these businesses are well established, have substantially greater resources than the Company and have established reputations for success in the development, sale and service of high quality products. The Company is aware of businesses which have developed an unattended, credit card activated control system to be used in connection with vending machines. Any such increased competition may result in reduced sales and/or lower percentages of gross revenues being retained by the Company in connection with its licensing arrangements, or otherwise may reduce potential profits or result in a loss of some or all of its customer base. The Company is also aware of several businesses which make available use of the Internet and use of personal computers to hotel guests in their hotel rooms. Such services might compete with the Company's Business Express(R), and the locations may not order the Business Express(R), or if ordered, the hotel guest may not use it. The Company is aware that credit card activated personal computer kiosks have been developed and are in the marketplace.

#### Patents, Trademarks and Proprietary Information

The Company received federal registration approval of its trademark Business Express(R), and has applied for federal registration of its trademarks Copy Express(TM), C3X(R), Public PC(R) and TransAct(TM).

Much of the technology developed or to be developed by the Company is subject to trade secret protection. To reduce the risk of loss of trade secret protection through disclosure, the Company has entered into confidentiality agreements with its key employees. There can be no assurance that the Company will be successful in maintaining such trade secret protection, that they will be recognized as trade secrets by a court of law, or that others will not capitalize on certain of the Company's technology.

As of June 30, 1999, the Company has applied for twenty-six patents including seven foreign patents. To date, two of these patents have been issued: Patent Number 5,619,024 entitled "Credit card and bank issued debit card operated system and method for controlling and monitoring access of computer and copy equipment," and Patent Number 5,637,845 entitled "Credit and bank issued debit card operated system and method for controlling a prepaid card encoding/dispensing machine." Three additional United States patents have been allowed (approved). The remaining twenty-one applications are pending and have not been granted.

#### Employees

As of June 30, 1999, the Company had twenty-six full time employees.

#### Item 2. Properties

The Company leases its principal executive offices, consisting of approximately 7,000 square feet, at 200 Plant Avenue, Wayne, Pennsylvania for a monthly rental of \$10,500 plus utilities and operating expenses. The lease expires on July 1, 2002.



### Item 3. Legal Proceedings

In June 1994, a former employee and Director of the Company filed a complaint against the Company in the Court of Common Pleas of Montgomery County, Pennsylvania. The complaint alleges that the Company engaged in age discrimination in violation of the Pennsylvania Human Relations Act in connection with his termination of employment. The trial of this matter was held in July 1998, and on August 28, 1998 the Court entered an Order in favor of the Company and against the former employee. The Court's decision states that the former employee failed to prove any age discrimination. On September 14, 1998, the former employee appealed the Court's decision as well as other prior orders rendered in the matter to the Superior Court of Pennsylvania. On June 14, 1999, the Superior Court affirmed the judgment in favor of the Company. On August 5, 1999, the former employee filed a Petition for Allowance of Appeal with the Pennsylvania Supreme Court. The Pennsylvania Supreme Court has not yet decided whether to grant the appeal.

On June 11, 1998, the Company filed a complaint in the District Court of the Eastern District of Pennsylvania against Alphanet Hospitality Systems, Inc. ("Alphanet Hospitality") and Alphanet Telecom, Inc. ("Alphanet Telecom") (collectively "Alphanet"). The complaint alleges that the Defendants engaged in patent infringement, breach of contract, misappropriation of trade secrets, unfair competition and tortious interference with prospective business relations. The Company and Alphanet Hospitality had considered entering into a business relationship. In order to protect the Company's confidential information and trade secrets, Alphanet Hospitality signed a Non-Disclosure and Non-Use Agreement as part of the negotiation process. Alphanet terminated the negotiations and the relationship with the Company. Shortly thereafter, Alphanet began marketing an unattended business center similar to the Company's Business Express(R). The Company believes that Alphanet wrongfully used the confidential information and trade secrets it became privy to during the negotiations, to develop its product. The Company is seeking damages and injunctive relief. On September 14, 1998, Alphanet filed an answer to the Complaint denying any liability to the company. Alphanet also filed a counterclaim against the Company seeking a declaratory judgement that the Company's patents are invalid or, in the alternative, there is no patent infringement. The counterclaim also seeks damages against the Company for unfair competition and product disparagement.

Alphanet Telecom, Inc. filed for bankruptcy in Canada and therefore the lawsuit against them has been stayed. Tech Electro Industries announced on August 12, 1999 that it intends to acquire Alphanet Hospitality. The Company's lawsuit against Alphanet Hospitality is on-going.

On September 3, 1998, MBE commenced a legal action against the Company in the Superior Court of the State of California, San Diego County. The complaint alleges that 195 terminals purchased by MBE were defective, and seeks a refund of the purchase price in the amount of \$141,260 as well as lost profits claimed to be several hundred thousand dollars. In addition, the complaint seeks a declaratory judgement that MBE is not obligated to purchase the 600 terminals ordered in April 1998. In October 1998, the Company had the case removed to the United States District Court for the southern District of California. The Company believes the claim to be without merit and that it will prevail in this action. Accordingly, there has been no provision recorded for this action in the accompanying consolidated financial statements.

In September 1998, the Company commenced arbitration proceedings against MBE in connection with MBE's breach of the Joint Venture Agreement. In December 1998, the parties agreed that the arbitration proceedings would be terminated, and the Company would proceed with all of its claims against MBE in the pending Federal Court action described above.

Pursuant to the above Federal Court Action, the Company asserted counterclaims. These counterclaims allege that MBE breached the Joint Venture Agreement by among other things, utilizing a competitor of the Company in connection with MBE's in-store computer workstation project ("ICW Project"), for which project the Company believes MBE was obligated to purchase USA's terminals. The counterclaims also allege that MBE breached a separate agreement pursuant to which it had agreed to purchase USA terminals for use in the ICW Project. The counterclaims also allege that by attempting to revoke or cancel its written purchase orders with the Company for in excess of 700 terminals, MBE breached its obligations under these purchase orders. The Counterclaim includes claims by the Company against MBE for breach of contract, breach of fiduciary duty, and trade libel. The Counterclaims seek recovery from MBE of monetary damages caused by MBE's actions, including lost profits, consequential damages and/or incidental damages, and punitive damages. The total counterclaims are for an amount in excess of \$10 million. The Company has also requested a declaration that MBE is required to use the Company in connections with its ICW project and prohibiting MBE from continuing to breach the Joint Venture Agreement. As of the date hereof, limited discovery has been conducted by the parties and no trial date has been set. By court order, discovery is to be completed by February 18, 2000.

On May 14, 1999, the Company notified MBE that the Company was terminating the Joint Venture Agreement. On May 19, 1999, the Company received a letter from MBE purporting to terminate the Joint Venture Agreement. The Joint Venture Agreement provided that it could be terminated at any time by either partner if the other partner breached any material term or condition of the agreement; provided that the terminating partner will have provided the other partner with written notice of the alleged breach and at least a sixty day period to cure such alleged breach. Previously, as required under the Joint Venture Agreement, on February 4, 1999 and February 19, 1999, the Company had given to MBE notice that MBE was in default of the Joint Venture Agreement in connection with five separate items, and demanded that MBE cure the breaches within sixty days. Through the date of the termination of the Joint Venture Agreement, MBE failed to cure any of these breaches.

The Company's May 14, 1999 letter to MBE states five reasons for the termination: MBE's refusal to authorize the installation of data port terminals as required under the sales agreement between the joint venture and a customer; MBE's refusal to allow the joint venture to market and sell the data port terminals; MBE's ongoing failure to commit adequate and appropriate resources to joint venture sales and marketing to effectuate a reasonable number of sales of joint venture business center equipment; MBE's failure to acknowledge the Company's ownership of the trademark "Business Express" and its actions inconsistent with the Company's ownership of the mark; and MBE's refusal to timely meet with the Company to discuss and conclude a joint venture sales and marketing budget for the fiscal year commencing April 1, 1999. See "Business Procurement."

Item 4. Submission of Matters to a Vote of Security Holders

- (a) The Annual Meeting of Shareholders was held on May 27, 1999.
- (b) Election of Directors

Each of the following individuals was elected as a director at the Annual Meeting. The number of votes cast with respect to the election of the directors was as follows:

	For	Withhold
	-----	-----
George R. Jensen, Jr.	39,556,652	771,144
Stephen P. Herbert	39,577,852	749,944
Steven Katz	39,599,052	728,744
Peter G. Kapourellos	39,599,052	728,744
William W. Sellers	39,599,052	728,744
Henry B. duPont Smith	39,202,973	1,124,823
William L. Van Alen, Jr.	39,554,919	772,877

(c) In addition to the election of directors, the following other matters were also voted on and approved at the Annual Meeting:

- (i) Ratification of the appointment of Ernst & Young LLP as independent public accountants for the Company for its 1999 fiscal year.

Affirmative Votes	39,993,790
Negative Votes	187,711
Abstaining Votes	226,295

- (ii) A proposal to approve a Plan of Recapitalization and amendment to the Company's Articles of Incorporation to effect a 1-for-10 reverse split of the Common Stock.

Affirmative Votes	37,527,408
Negative Votes	2,264,999
Abstaining Votes	615,389

- (iii) A proposal to amend the Company's Articles of Incorporation to increase the number of authorized shares of undesignated Series Preferred Stock from 1,200,000 to 1,800,000.

Affirmative Votes	18,414,890
Negative Votes	2,585,030
Abstaining Votes	993,931

- (iv) A proposal to amend the Company's Articles of Incorporation to increase the number of authorized shares of Series A Preferred Stock from 787,591 to 900,000.

Affirmative Votes	18,290,060
Negative Votes	2,576,779
Abstaining Votes	1,127,012

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Common Stock and Preferred Stock are currently traded on the OTC Electronic Bulletin Board under the symbols USTT and USTTP, respectively.

The high and low bid prices on the OTC Electronic Bulletin Board for the Common Stock were as follows:

Fiscal

1998 - - - - -	High - - - - -	Low - - - - -
First Quarter (through September 30, 1997)	\$ 8.00	\$2.70
Second Quarter (through December 31, 1997)	\$ 6.00	\$2.20
Third Quarter (through March 31, 1998)	\$ 4.90	\$2.50
Fourth Quarter (through June 30, 1998)	\$ 4.60	\$2.50
1999 - - - - -		
First Quarter (through September 30, 1998)	\$ 3.10	\$1.20
Second Quarter (through December 31, 1998)	\$ 1.70	\$ .80
Third Quarter (through March 31, 1999)	\$ 3.20	\$1.10
Fourth Quarter (through June 30, 1999)	\$ 4.75	\$1.20
2000 - - - - -		
First quarter (through September 23, 1999)	\$ 2.94	\$1.63

Such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

At June 30, 1999, there are 917,100 shares of Common Stock issuable upon exercise of outstanding options, and 11,740 shares of Common Stock issuable upon exercise of outstanding purchase rights. All of these shares of Common Stock, if issued on the date hereof, would be "restricted securities" as defined under Rule 144 under the Act. Of the 917,000 options, 15,000 are exercisable at \$5.00 per share, 84,000 are exercisable at \$4.50 per share, 131,500 are exercisable at \$2.50 per share, 549,500 are exercisable at \$2.00 per share, 132,000 are exercisable at \$1.50 per share, and 5,000 are exercisable at \$.50 per share. In connection with the above options and outstanding Purchase Rights to acquire up to 11,740 shares of Common Stock at \$10.00 per share, the Company has filed a registration statement under the Act and applicable state securities laws covering all of the Common Stock underlying the options. All of the aforesaid options have been issued by the Company to employees, Directors, officers and consultants.

As of June 30, 1999, there were 67,300 shares of Common Stock issuable upon exercise of the outstanding 1995 Warrants, which when and if issued would be freely tradeable under the Act. As of June 30, 1999, there are 86,800 shares of Common Stock issuable upon exercise of the outstanding 1996 Warrants, which when and if issued would be freely tradeable under the Act. As of June 30, 1999, there were 4,000 shares of Common Stock issuable upon exercise of the outstanding 1996-B Warrants, which when and if issued would be freely tradeable under the Act. As of June 30, 1999, there are 1,500 shares of Common Stock issuable upon exercise of the outstanding 1997 Warrants, which when and if issued

would be freely tradeable under the Act. As of June 30, 1999, there were 110,000 shares of Common Stock issuable upon the exercise of outstanding Warrants issued to affiliates and/or consultants to GEMA in connection with the sale of Convertible Securities. As of June 30, 1999, there were 4,000 shares of Common Stock issuable upon the exercise of the outstanding 1998-A Warrants, which when and if issued would be freely tradeable under the Act. As of June 30, 1999, there were 5,000 shares of Common Stock issuable upon the exercise of the outstanding 1998-B Warrants, which when and if issued would not be freely tradeable under the Act. As of June 30, 1999, there were 933,600 shares of Common Stock issuable upon the exercise of the outstanding 1999-A Warrants, which when and if issued would not be freely tradeable under the Act.

On June 30, 1999 there were 874 record holders of the Common Stock and 684 record holders of the Preferred Stock.

The holders of the Common Stock are entitled to receive such dividends as the Board of Directors of the Company may from time to time declare out of funds legally available for payment of dividends. Through the date hereof, no cash dividends have been declared on the Company's securities. No dividend may be paid on the Common Stock until all accumulated and unpaid dividends on the Preferred Stock have been paid. As of June 30, 1999, such accumulated unpaid dividends amount to \$3,328,442 and an additional \$469,183 of dividends accrued on August 1, 1999.

During the fourth quarter of the fiscal year, certain holders of the Company's Preferred Stock converted 19,450 shares into 19,450 shares of Common Stock. Certain of these shareholders also converted cumulative preferred dividends of \$54,112 into 5,411 shares of Common Stock. Also during the fourth quarter of the fiscal year, 5,100 warrants were exercised, resulting in the issuance of 5,100 shares of Common Stock.

Subsequent to June 30, 1999 and through September 23, 1999, certain holders of the Company's Preferred Stock converted 14,500 shares into 14,500 shares of Common Stock. Certain of these shareholders also converted cumulative preferred dividends of \$8,737 into 8,737 shares of Common Stock.

During August and September 1999, certain holders of 136,000 of the Company's 1999-A Warrants exercised them at \$.50 per warrant, generating \$68,000 in gross proceeds to the Company.

On June 7, 1999, the Company effectuated a 1-for-10 reverse stock split of all of its issued and outstanding Common Stock. Pursuant thereto, on the effective date of the reverse stock split (i) each 10 shares of outstanding Common Stock were reduced to one share of Common Stock; (ii) the number of shares of Common Stock into which each outstanding warrant, purchase right or option is exercisable was proportionately reduced on a 10-to-1 basis; (iii) the exercise price of each outstanding warrant, purchase right, or option was proportionately increased on a 1-to-10 basis; (iv) the number of shares of Common Stock into which each share of Series A Preferred Stock is convertible was reduced from 10 shares to 1 share; (v) the conversion rate of the accrued and unpaid dividends on the Series A Preferred Stock was increased from \$1.00 to \$10.00 per share of Common Stock; and (vi) each share of Series B Preferred Stock was converted into 4 shares of Common Stock. All of the share numbers, share prices, exercise prices, and all other similar items contained in this Form 10-KSB have been properly adjusted, on a retroactive basis, to reflect all of the foregoing.

In June 1999, the Company issued 4,000 shares of Common Stock to Robert Flaherty in connection with public relations services rendered to the Company. The shares constitute restricted securities as such term is defined under Rule 144 promulgated under the Act.

In June 1999, the Company issued 10,000 shares of Common Stock to Rick Joshi, for consulting services rendered to the Company. The shares constitute restricted securities as such term is defined under Rule 144 promulgated under the Act.

In June 1999, the Company issued options to purchase an aggregate of 12,000 shares of Common Stock to six employees. The options are fully vested and may be exercised at any time for five years following vesting at \$2.00 per share of Common Stock. The Company has agreed to register for resale under the Act the Common Stock underlying the options.

In June 1999, the Company issued options to purchase an aggregate of 470,000 shares of Common Stock to its executive officers and an aggregate of 60,000 shares of Common Stock to its directors who were not executive officers. The Company has agreed to register for resale under the Act the Common Stock underlying the options.

From September 1998 through June 1999, the Company sold 466.8 units at \$10,000 each, for an aggregate of \$4,668,000. Each unit consisted of a \$10,000 principal amount 12% Senior Note, 2,000 1999-A Common Stock Purchase Warrants, and 1,000 shares of Series B Equity Participating Preferred Stock. The offering was sold to 223 accredited investors, and did not involve any general advertising or solicitation, and was therefore exempt from registration under Rule 506 of Regulation D promulgated under the Act. The Company paid compensation to Harmonic Research, Inc., a broker-dealer, in connection with the 47 units sold by such broker-dealer. In this regard, the Company paid to such

broker-dealer cash compensation of \$47,000 as well as 43,800 shares of Common Stock and 9,400 1999-A-Warrants. The shares of Common Stock issued to such broker-dealer are restricted securities as such term is defined under Rule 144 promulgated under the Act. Pursuant to the private placement offering, the Company had issued 466,800 shares of Series B Preferred Stock. The Series B Preferred Stock was convertible into 4 shares of Common Stock in the event of a reverse stock split of the Common Stock. As a result of the 1-for-10 reverse stock split which became effective on June 7, 1999, all of the shares of Series B Preferred Stock were exchanged for 1,867,200 shares of Common Stock, and as of the date hereof, there are no issued and outstanding shares of Series B Preferred Stock. The shares of Common Stock issued to the holders of the Series B Preferred Stock are restricted securities as defined under Rule 144 promulgated under the Act, and can not be sold or transferred without registration under the Act or pursuant to an applicable exemption therefrom. The Company has registered for resale under the Act the shares of Common Stock underlying the 1999-A Warrants.

#### Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

##### Forward Looking Statements

This Form 10-KSB contains certain forward looking statements regarding, among other things, the anticipated financial and operating results of the Company. For this purpose, forward looking statements are any statements contained herein that are not statements of historical fact and include, but are not limited to, those preceded by or that include the words, "believes," "expects," "anticipates," or similar expressions. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward looking information is based on various factors and was derived using numerous assumptions. Important factors that could cause the Company's actual results to differ materially from those projected, include, for example (i) the ability of the Company to generate sufficient sales to generate operating profits, or to sell products at a profit, (ii) the ability of the Company to raise funds in the future through sales of securities, (iii) whether the Company is able to enter into binding agreements with third parties to assist in product or network development, (iv) the ability of the Company to commercialize its developmental products, or if actually commercialized, to obtain commercial acceptance thereof, (v) the ability of the Company to compete with its competitors to obtain market share, or (vi) the ability of the Company to obtain sufficient funds through operations or otherwise to repay its debt obligations. Although the Company believes that the forward looking statements contained herein are reasonable, it can give no assurance that the Company's expectations will be met.

##### Introduction

Events in the latter portion of the fiscal year ended June 30, 1998 enabled the Company to complete its transition from a development stage enterprise to an enterprise focusing on marketing its products and its commercial operations. The Company has incurred operating losses during the years ended June 30, 1999 and 1998 of \$3,651,624 and \$3,568,281, respectively, and anticipates incurring operating losses through at least the majority of fiscal 2000.

The Company's independent auditors have included an explanatory paragraph in their report on the Company's June 30, 1999 consolidated financial statements discussing issues which raise substantial doubt about the Company's ability to continue as a going concern. The Company believes that the funds available at June 30, 1999 combined with the revenues to be generated during fiscal year 2000, the potential capital to be raised from the exercise of Common Stock Purchase Warrants, a private placement offering, and the ability to reduce anticipated expenditures, if required, will provide for the Company to continue a going concern.

##### Results of Operations

###### Fiscal year ended June 30, 1999:

For the fiscal year ended June 30, 1999, the Company had a net loss of \$3,651,624. The overall loss applicable to common shares of \$4,654,077 or \$1.07 per common share (basic and diluted) was derived by adding the \$3,651,624 net loss and the \$1,002,453 of cumulative preferred and other adjustments and dividing by the weighted average shares outstanding of 4,348,866.

Revenues for the fiscal year ended June 30, 1999 were \$3,890,516, an increase of \$2,065,287 or 113% over the prior year, reflecting the continued penetration of the Business Express(R) and the MBE Business Express<sup>TM</sup> into the marketplace.

Operating expenses for the fiscal year ended June 30, 1999 were \$7,295,628, representing a \$1,793,978 or 33% increase over the prior year. The primary contributors to this increase were cost of equipment sales and general and administrative expenses, as detailed below.

Cost of sales increased by \$1,701,193 from the prior year, primarily reflecting the increase in MBE(TM) Business Express(TM) business. General and administrative expenses of \$2,687,744 increased by \$473,760 or 21%. This increase is primarily due to legal expenses associated with the pending MBE litigation, which amounted to over \$600,000. Without these legal expenses, general and administrative expenses would have declined by over \$100,000. In addition, outside services increased by \$141,135 or 199% primarily to fund promotional programs in the marketing and investor relations areas. Offsetting these increases were decreases in travel and entertainment expenses of \$147,097, or 42%; decreases in product development of \$45,760 or 46%; and decreases in advertising by \$103,270 or 49%.

Compensation expense was \$1,553,189, a decrease of \$356,493 or 19% from the previous year. The decrease was primarily due to the non-cash expense of \$554,630 last year which reflected the compensation charge recorded for the repricing of the common stock options below fair market value during April 1998. Offsetting this decrease were increases in salaries of \$237,260, or 21%, which is due to increased personnel requirements in the operations and sales areas.

Depreciation expense of \$91,773 decreased by \$24,382 or 21%, due to a lower depreciable asset base.

Fiscal year ended June 30, 1998:

For the fiscal year ended June 30, 1998, the Company had a net loss of \$3,568,281. The overall loss applicable to common shares of \$5,322,847 or \$1.51 per common share (basic and diluted) was derived by adding the \$3,568,281 net loss and the \$1,754,566 of cumulative preferred and other adjustments and dividing by the weighted average shares outstanding of 3,532,048.

Revenues for the fiscal year ended June 30, 1998 were \$1,825,229, an increase of \$1,217,457 or 200% over the prior year, reflecting the continued entrance of the Business Express(R) and the MBE(TM) Business Express<sup>TM</sup> into the marketplace.

Operating expenses for the fiscal year ended June 30, 1998 were \$5,501,650, representing a \$1,758,689 or 47% increase over the prior year. The primary contributors to this increase were cost of sales, general and administrative expense, and compensation expense, as detailed below.

Cost of sales increased by \$736,639 from the prior year, primarily reflecting the increase in MBE(TM) Business Express(TM) business. General and administrative expense of \$2,213,984 increased by \$173,821 or 8.5% which reflects both a general increase in spending to support the expansion of operations and other factors as described below. Specifically the major contributors to this increase were: reserves of \$87,520 established in fiscal 1998 to cover estimated future field service warranty expenses for the Company's C3X(R) terminals; marketing promotions and trade show expenses

increased \$64,901 or 59%; and advertising increased by \$125,204 or 143%, reflecting the need to increase product awareness in the marketplace. Certain other increases were experienced in outside services, telephone, and office supplies. Certain other expenses decreased as compared to the prior year, primarily professional and consultant fees, which decreased by \$109,916 or 20%.

Compensation expense was \$1,909,682, an increase of \$829,224 or 76.7% over the previous year. The increase was primarily due to the non-cash expense of \$554,630 which reflects the compensation charge recorded for the repricing of the common stock options below fair market value during April 1998. The remainder of the increase is due to increased personnel requirements in the operations and sales areas.

Depreciation expense of \$116,255 increased by \$19,005, which is attributable to the increased depreciable asset base.

#### Plan of Operations

As of June 30, 1999, the Company had a total of 1,233 credit card activated control systems installed in the field as follows: Business Express(R) 1,119, Copy Express(TM) 36, Debit Express(TM) 27, Public PC(R) 41, Fax/Printer Express(TM) 10. Through June 30, 1999 total license and transaction fees earned by the Company from these systems were \$448,319, which was almost double the fees from the prior year.

During the past year the Company has focused on developing a new terminal with an approved trademark of "e-port". It contains all the functionality of the current TransAct(TM) terminal for credit card processing, control and data management, and in addition would offer capability for public access, electronic commerce and advertising using the Internet. The Company anticipates that Beta testing of e-port(TM) will occur in the second quarter of fiscal 2000. The Company also is developing a proposal with IBM whereby IBM will provide value added design, development, fulfillment and product warranty services for the e-port(TM). The goal is to leverage IBM research, purchasing, manufacturing and global services to provide the Company with shortened time to market, product excellence, and a lower total cost of goods. IBM has also signed a letter of intent to help the Company design an enhanced version of the network which will underlie all transaction processing for e-port(TM), including advertising and e-commerce.

On June 7, 1999, Ikon Office Solutions signed a letter of intent with the Company wherein it stated its intent to market and sell the Company's Transact solutions to businesses through its sales representatives. Ikon, with fiscal 1998 revenues of more than \$5.6 billion, is one of the world's leading office technology companies, providing copier and printing systems, computer networking and digital document document services. Training of Ikon sales representatives has begun, and sales to Ikon are expected to begin in the second quarter of fiscal 2000.

Additional plans for the coming fiscal year include continued focus on the sales and/or leasing of its Business Express(R) business centers, and development of strategic partnering relationships.

#### Liquidity and Capital Resources

During the fiscal year ended June 30, 1999, the Company completed several financing transactions. Net proceeds of \$4,106,440 were realized from issuance of Senior Notes, \$254,360 were realized from private placement offerings of Series A Preferred Stock, and \$182,540 were realized from Common



Stock transactions, principally the exercise of Common Stock Purchase Warrants and Options. As of June 30, 1999, the Company had working capital of \$1,279,367, which included cash and cash equivalents of \$1,665,016 and inventory of \$1,255,836.

During the fiscal year ended June 30, 1999, net cash of \$3,940,414 was used by operating activities, primarily due to the net loss of \$3,651,624. The net cash provided by financing activities of \$5,320,747 was principally due to the net proceeds generated from the issuance of the Senior Notes described in the prior paragraph and the \$804,485 proceeds from the line of credit from IBM Global Financing (see below).

During August and September 1999, shareholders have exercised an aggregate of 136,000 1999-A Warrants for gross proceeds of \$68,000.

The Company's independent auditors have included an explanatory paragraph in their report on the Company's June 30, 1999 consolidated financial statements discussing issues which raise substantial doubt about the Company's ability to continue as a going concern. The Company anticipates that for the year ending June 30, 2000 there will be a negative cash flow from operations in excess of \$3.0 million. However, the Company believes that the funds available at June 30, 1999 combined with the revenues to be generated during fiscal year 2000, the potential capital to be raised from the exercise of the Common Stock Purchase Warrants, a possible private placement offering, and the ability to reduce anticipated expenditures, if required, will provide for the Company to continue as a going concern through at least the third quarter of fiscal year 2000.

#### Commitments

The Company leases approximately 7,000 square feet in Wayne, Pennsylvania for a monthly rental of \$10,500 plus utilities and operating expenses. The lease expires on July 1, 2002.

The Company has acquired inventory financing using IBM Global Financing. The debt to IBM is secured primarily by the inventory being financed. As of June 30, 1999, \$804,485 of inventory is being financed. Such inventory was originally the inventory of the JV, but was purchased by the Company from the JV when the JV was terminated in May 1999.

#### Year 2000 Compliance

In general, many existing computer programs use only two digits to identify a year in the date field. These programs were designed and developed without considering the impact of the upcoming change in the century. If not corrected, many computer applications could fail or create erroneous results by or at the Year 2000.

The Company's remediation efforts have proceeded with Executive level management sponsorship, funding and support. Efforts have been made to insure an orderly transition leading up to and across the date change event. The Company is committed to making the Millennium event come and pass without disruption to its customers, suppliers and business partners. November 30, 1999 has been targeted as the final trialing test and contingency planning in the event that issues arise that are outside of the Company's control, specifically utilities, municipal infrastructures, communications facilities and key interfaces.

In analyzing its business in order to determine whether its computer systems are in compliance with Year 2000 issues, the Company has incurred costs estimated to be approximately \$5,000 for internal and external study and analysis and anticipates additional costs of approximately the same to complete the study.

In connection with its study, the Company is concentrating on five areas of its business: (i) its control system terminals; (ii) its office computers; (iii) its credit card processing systems and related systems; (iv) its back-up, off-site recovery system and (v) its non-Information Technology ("IT") systems. The study should be completed on or before November 30, 1999. Based on the study to date the Company estimates that it could incur costs of up to \$25,000 in order to be Year 2000 compliant, which would be incurred for replacement accounting software, other software and database upgrades and internal or external services.

In reference to item (i) above, selected terminals have been reexamined by the terminal designer. No hardware or firmware was found to contain any date sensitive element which would cause a Y2K problem. In addition, several terminals were tested by using year 2000 dates, and no problem was found. Future work will include contact with the terminal supplier to ascertain if any manufacturing processes could have introduced a Y2K problem. In reference to item (ii) above, the Company has already found all but two office computers

to be compliant. These two computers have been re-utilized in a capacity that does not involve date sensitive processing. In reference to item (iii), the programs written by the Company to process credit card data received from the terminals in the field have been reviewed, and no Y2K problems have emerged. Further, the programs are presently being rewritten in a Y2K compliant Visual Basic programming language, and the code will be examined for Y2K issues as part of its quality testing. As indicated above, vendor software and database reviews are on going, and expenditures to procure Y2K compliant software have already been made. In reference to item (iv), the off-site recovery systems utilize IBM facilities nearby which are believed to be Y2K compliant. Item (v), non IT systems, is currently under investigation.

The Company is in the process of obtaining written assurances of compliance from all third parties whose products may materially affect the Company's operations. These parties include, but are not limited to, the Company's credit card processor, control system manufacturer, and various equipment manufacturers.

The worst case scenario for the Company would be if the control systems in the field were all found to contain a Year 2000 problem which caused defective transmissions into the Company's main processing software. The Company believes that the probability of this scenario actually happening is very low (the technology of the control units does not involve use or transmission of two digit year data). If however it did happen, the Company's licensing and processing revenues might be materially impacted if the time required to replace all defective units using compliant terminals was many months. The Company anticipates the cost of such replacement units to be approximately \$150,000.

Item 7. Consolidated Financial Statements

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Report of Independent Auditors

To the Board of Directors and Shareholders  
USA Technologies, Inc.

We have audited the accompanying consolidated balance sheets of USA Technologies, Inc. as of June 30, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the two years in the period ended June 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of USA Technologies, Inc. at June 30, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the two years in the period ended June 30, 1999, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming USA Technologies, Inc. will continue as a going concern. As discussed in Note 2 to the financial statements, the Company's recurring losses from operations from its inception and its accumulated deficit through June 30, 1999, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania  
September 14, 1999

USA Technologies, Inc.  
Consolidated Balance Sheets

	June 30	
	1999	1998
	-----	-----
Assets		
Current assets:		
Cash and cash equivalents	\$1,665,016	\$ 324,824
Accounts receivable, less allowance for uncollectible accounts of \$69,555 and \$23,764 in 1999 and 1998, respectively	361,463	222,743
Inventory	1,255,836	436,971
Subscriptions receivable	178,873	19,875
Prepaid expenses and deposits	42,746	20,515
	-----	-----
Total current assets	3,503,934	1,024,928
Property and equipment, net	143,670	151,906
Other assets	10,250	10,250
	-----	-----
Total assets	\$3,657,854	\$ 1,187,084
	=====	=====
Liabilities and shareholders' equity (deficit)		
Current liabilities:		
Accounts payable	\$ 917,141	\$ 576,787
Equipment line of credit	804,485	-
Accrued expenses	498,548	430,643
Current obligations under capital leases	4,393	22,810
	-----	-----
Total current liabilities	2,224,567	1,030,240
Senior Note, net of unamortized discount	2,054,232	-
Obligations under capital leases, less current portion	22,584	1,669
	-----	-----
Total liabilities	4,301,383	1,031,909
Shareholders' equity (deficit):		
Preferred Stock, no par value:		
Authorized shares - 1,800,000		
Series A Convertible Preferred Authorized shares - 900,000		
Issued and outstanding shares - 640,577 and 618,236 at June 30, 1999 and 1998, respectively (liquidation preference of \$ 9,734,212 at June 30, 1999)		
	4,537,128	4,538,114
Common Stock, no par value:		
Authorized shares - 62,000,000		
Issued and outstanding shares - 6,191,097 and 4,016,384 at June 30, 1999 and 1998, respectively		
	14,277,763	11,223,213
Subscriptions receivable	(83,983)	-
Accumulated deficit	(19,374,437)	(15,606,152)
	-----	-----
Total shareholders' equity (deficit)	(643,529)	155,175
	-----	-----
Total liabilities and shareholders' equity (deficit)	\$3,657,854	\$ 1,187,084
	=====	=====

See accompanying notes.

USA Technologies, Inc.  
Consolidated Statements of Operations

	Year ended June 30	
	1999	1998
Revenues:		
Equipment sales	\$ 3,442,197	\$ 1,588,487
License and transaction fees	448,319	236,742
	3,890,516	1,825,229
Operating expenses:		
Cost of equipment sales	2,962,922	1,261,729
General and administrative	2,687,744	2,213,984
Compensation	1,553,189	1,909,682
Depreciation	91,773	116,255
	7,295,628	5,501,650
	(3,405,112)	(3,676,421)
Other income (expense):		
Interest income	8,347	18,225
Interest expense	(135,505)	(8,443)
Joint Venture activities	(119,354)	98,358
	(246,512)	108,140
Net loss	(3,651,624)	(3,568,281)
Cumulative preferred dividends and other adjustments	(1,002,453)	(1,754,566)
Loss applicable to common shares	\$(4,654,077)	\$ (5,322,847)
	=====	=====
Loss per common share (basic and diluted)	\$ (1.07)	\$ (1.51)
	=====	=====
Weighted average number of common shares outstanding (basic and diluted)	4,348,866	3,532,048
	=====	=====

See accompanying notes.

USA Technologies, Inc.

Consolidated Statements of Shareholders' Equity

	Series A Convertible Preferred Stock	Common Stock	Accumulated Deficit	Total
	-----	-----	-----	-----
Balance, June 30, 1997	\$ 7,024,811	\$ 4,355,334	\$ (10,534,004)	\$ 846,141
Issuance of 20,500 shares of Common Stock in exchange for consulting services	-	68,096	-	68,096
Issuance of 950 shares of Common Stock to employees as compensation	-	2,565	-	2,565
Conversion of 392,969 shares of Convertible Preferred Stock to 466,453 shares of Common Stock	(3,188,207)	3,188,207	-	-
Conversion of \$1,388,772 of cumulative preferred dividends into 167,455 shares of Common Stock at \$8.30 per share	-	1,388,772	(1,388,772)	-
Conversion of \$115,095 of cumulative preferred dividends into 11,509 shares of Common Stock at \$10.00 per share	-	115,095	(115,095)	-
Common Stock warrants exercised - 371,000 at \$1.50 per warrant	-	556,500	-	556,500
Common Stock warrants exercised - 281,900 at \$2.00 per warrant, net of offering costs	-	521,639	-	521,639
Common Stock warrants exercised - 187,100 at \$2.50 per warrant	-	467,750	-	467,750
Exercise of 7,000 Common Stock options - at \$0.50 per share	-	3,500	-	3,500
Exercise of 4.50 Common Stock purchase rights - at \$2.50 per share	-	1,125	-	1,125
Cancellation of 436,500 shares of Common Stock by the President of the Company	-	-	-	-
Issuance of 150,000 shares (75 units) of Convertible Preferred Stock at \$5.00 per share, in connection with 1997B Private Placement, net of offering costs	701,510	-	-	701,510
Reduction in exercise price below the fair market value for 189,600 Common Stock options	-	554,630	-	554,630
Net loss	-	-	(3,568,281)	(3,568,281)
Balance, June 30, 1998	\$ 4,538,114	\$ 11,223,213	\$ (15,606,152)	\$ 155,175

USA Technologies, Inc.

Consolidated Statements of Shareholders' Equity (continued)

	Series A Convertible Preferred Stock	Common Stock	Subscriptions Receivable	Accumulated Deficit	Total
	-----	-----	-----	-----	-----
Issuance of 55,600 shares (27.8 units) of Convertible Preferred Stock at \$5.00 per share, in connection with 1998B Private Placement, net of offering costs	\$ 234,485	\$ -	\$ -	\$ -	\$ 234,485
Issuance of 9,200 warrants of Common Stock in exchange for services	-	18,400	-	-	18,400
Issuance of 80,400 shares of Common Stock in exchange for services	-	150,820	-	-	150,820
Issuance of 50 shares of Common Stock to an employee as compensation	-	100	-	-	100
Conversion of 3,326 shares of Convertible Preferred Stock to 3,326 shares of Common Stock	(235,471)	235,471	-	-	-
Conversion of \$116,661 of cumulative preferred dividends into 11,666 shares of Common Stock at \$10.00 per share	-	116,661	-	(116,661)	-
Common Stock warrants exercised - 134,000 at \$1.00 per warrant	-	134,000	-	-	134,000
Exercise of 45,000 Common Stock options - at \$1.00 per share	-	45,000	-	-	45,000
Exercise of 3,540 Common Stock purchase rights - at \$1.00 per share	-	3,540	-	-	3,540
Issuance of 1,867,200 shares of Common Stock from the conversion of 466,800 shares of Series B Equity Participating Preferred Stock, in connection with the 1999 Senior Note Offering (Note 9)	-	524,485	-	-	524,485
Issuance of 933,600 warrants in connection with the 1999 Senior Note Offering	-	1,826,073	-	-	1,826,073
Subscriptions receivable relating to the 1999 Senior Note Offering	-	-	(83,983)	-	(83,983)
Net loss	-	-	-	(3,651,624)	(3,651,624)
	-----	-----	-----	-----	-----
Balance, June 30, 1999	\$ 4,537,128	\$ 14,277,763	\$ (83,983)	\$ (19,374,437)	\$ (643,529)
	=====	=====	=====	=====	=====

See accompanying notes



USA Technologies, Inc.

Consolidated Statements of Cash Flows

	Year ended June 30	
	1999	1998
	-----	-----
Operating activities		
Net loss	\$ (3,651,624)	\$ (3,568,281)
Adjustments to reconcile net loss to net cash used in operating activities:		
Compensation charges incurred in connection with the issuance of Common Stock and Common Stock Purchase Warrants and repricing of Common Stock options	169,320	625,291
Depreciation	91,773	116,255
Interest relating to Senior Note Offering	35,494	-
Provision for allowance for uncollectible accounts	45,791	10,441
Changes in operating assets and liabilities:		
Accounts receivable	(184,511)	(204,224)
Inventory	(832,685)	(147,634)
Prepaid expenses, deposits, and other assets	(22,231)	5,155
Accounts payable	340,354	200,499
Accrued expenses	67,905	383,901
	-----	-----
Net cash used in operating activities	(3,940,414)	(2,578,597)
Investing activities		
Purchase of property and equipment	(40,141)	(723)
	-----	-----
Net cash used in investing activities	(40,141)	(723)
Financing activities		
Proceeds from line of credit agreement	804,485	-
Net proceeds from issuance of Senior Notes	4,106,440	-
Net proceeds from issuance of Common Stock and exercise of Common Stock Purchase Warrants	182,540	1,530,639
Net proceeds from issuance of Convertible Preferred Stock	254,360	761,510
Repayment of principal on capital lease obligations	(27,078)	(18,271)
	-----	-----
Net cash provided by financing activities	5,320,747	2,273,878
	-----	-----
Net increase (decrease) in cash and cash equivalents	1,340,192	(305,442)
Cash and cash equivalents at beginning of year	324,824	630,266
	-----	-----
Cash and cash equivalents at end of year	\$ 1,665,016	\$ 324,824
	=====	=====
Supplemental disclosures of cash flow information:		
Conversion of Convertible Preferred Stock to Common Stock	\$ 235,471	\$ 3,188,207
	=====	=====
Conversion of Cumulative Preferred Dividends to Common Stock	\$ 116,661	\$ 1,503,867
	=====	=====
Subscriptions receivable	\$ 262,856	\$ 19,875
	=====	=====
Cash paid during the year for interest	\$ 95,089	\$ 18,777
	=====	=====
Transfer of inventory to property and equipment	\$ 13,820	\$ 88,981
	=====	=====
Capital lease obligations incurred	\$ 29,576	\$ -
	=====	=====

See accompanying notes.

USA Technologies, Inc.

Notes to Consolidated Financial Statements

1. Business

USA Technologies, Inc., a Pennsylvania corporation (the "Company"), was incorporated on January 16, 1992. The Company is a provider and licensor of unattended, credit card activated control systems for the copying, debit card and personal computer industries. The Company's customers are principally located in the United States and are comprised of hotels, retail locations, university libraries, and public libraries. The Company generates its revenues from the direct sale of equipment utilizing its control systems, from retaining a percentage of the gross licensing fees generated by the control systems, and from a monthly administrative service fee. The Company offers the Business Express(R) principally to the hospitality industry. The Business Express(R) combines the Company's business applications for computers, copiers and facsimile machines into a business center unit.

2. Accounting Policies

Basis of Financial Statement Presentation

The consolidated financial statements of the Company have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue in existence. The Company has incurred substantial losses of \$3.7 million and \$3.6 million during each of the fiscal years ending June 30, 1999 and 1998, respectively, and cumulative losses from its inception through June 30, 1999 amounting to \$16.6 million. Losses have continued through September 1999. The Company's ability to meet its future obligations is dependent upon the success of its products in the marketplace and its ability to raise capital until the Company's products can generate sufficient operating revenues. These factors raise doubt about the Company's ability to continue as a going concern. Management believes that actions presently being taken will allow for the Company to continue as a going concern. Such actions include the generation of revenues from operations, additional private placement offerings, the exercise of Common Stock purchase warrants and options, and continued efforts to reduce costs.

Notes to Consolidated Financial Statements (continued)

2. Accounting Policies (continued)

Consolidation

The consolidated financial statements include the accounts of the Joint Venture (Note 3). All significant intercompany accounts and transactions have been eliminated in consolidation for the years ended June 30, 1999 and 1998, respectively.

Use of Estimates

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

Cash Equivalents

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

Inventory

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

Property and Equipment

Property and equipment are recorded at cost. Property and equipment consists of control systems, which generate monthly transaction fees from usage and are depreciated using the straight-line method over three years, and furniture and vehicles, which are depreciated using the straight-line method over seven and five years, respectively, for financial statement purposes and accelerated methods for income tax reporting purposes.

Revenue Recognition

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

Notes to Consolidated Financial Statements (continued)

2. Accounting Practices (continued)

Research and Development

Research and development costs are charged to operations as incurred. Such research and development costs amounted to approximately \$198,000 and \$199,000 for the years ended June 30, 1999 and 1998, respectively. These costs are reflected in general and administrative and compensation expenses in the accompanying financial statements.

Income Taxes

The Company provides for income taxes using the asset and liability approach whereby deferred tax assets and liabilities are recorded based on the difference between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Such differences result from differences in the timing of recognition by the Company of certain expenses, and the periods of amortization and depreciation of certain assets.

Accounting for Stock Options

Financial Accounting Standards Board issued Statement No. 123 ("SFAS 123"), Accounting for Stock-Based Compensation. SFAS 123 provides companies with a choice to follow the provisions of SFAS 123 in determination of stock-based compensation expense or to continue with the provisions of Accounting Principles Board Opinion No. 25 ("APB 25"). The Company has elected to follow the provisions of APB 25. Under APB 25, if the exercise price of the Company's stock options equals or exceeds the market price of the underlying Common Stock on the date of grant, no compensation expense is recognized. The effect of applying SFAS 123 to the Company's stock-based awards results in net loss and net loss per common share that are disclosed on a proforma basis in Note 12.

Notes to Consolidated Financial Statements (continued)

2. Accounting Practices (continued)

Loss Per Common Share

Basic earnings per share is calculated by dividing net income (loss) by the weighted average common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income (loss) by the weighted average common shares outstanding of the period plus the dilutive effect of equity instruments. No exercise of stock options, purchase rights, stock purchase warrants, or the conversion of preferred stock and cumulative preferred dividends was assumed during fiscal 1999 or 1998 because the assumed exercise of these securities would be antidilutive.

Impact of Recent Accounting Pronouncements

During June 1997, the Financial Accounting Standards Board issued Statement No. 130, Reporting Comprehensive Income ("SFAS 130") and Statement No. 131, Disclosures about Segments of an Enterprise and Related Information ("SFAS 131"). SFAS 130 requires financial statement reporting of all non-owner related changes in equity for the periods presented. SFAS 131 requires disclosure about revenue, earnings and other financial information pertaining to business segments by which a company is managed, as well as factors used by management to determine segments. Both SFAS 130 and SFAS 131 are effective for fiscal years beginning after December 15, 1997. The adoption of SFAS 130 and SFAS 131 had no material effect on the Company's results of operations or financial condition.

Fair Value of Financial Instruments

Financial Accounting Standards Board Statement No. 107, Disclosures About Fair Value of Financial Instruments, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. Cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses reported in the consolidated balance sheets equal or approximate fair value due to their short maturities. The fair value of the Company's Senior Notes approximates book value as such notes are at market rates currently available to the Company.

3. Joint Venture

During September 1997, the Company entered into a five year Joint Venture Agreement with Mail Boxes Etc. ("MBE") to operate under the name "MBE Express Joint Venture" (hereinafter referred to as "Joint Venture") and exclusively sell and market the Company's Business Express(R) product under the name MBE Business Express(TM). Gross profits earned by the Joint Venture from sales on a National Account level and sales referred to the Joint Venture by MBE franchisees are split equally by the partners. Any sales generated by either of the partners responsible for obligating the customer for the sale would receive 75% of the gross profit and the other partner would receive 25% of the gross profit. The agreement also allows the Company to have the option to directly sell its Business Express products. All other revenues and expenses of the Joint Venture are shared equally by the partners. The Joint Venture Agreement specifies that if certain sales goals are not met by the Joint Venture, the Company may terminate the exclusivity provisions of the agreement after the second year. The Company manages the operations of the Joint Venture and handles all of its administrative matters. The Joint Venture also specifies that it may be terminated at any time by either partner if the other partner has breached any material term or condition of the agreement; provided that the terminating partner has allowed the other partner at least a sixty-day period to cure any alleged breach.

During March 1998, the Joint Venture entered into an agreement with International Business Machines Corporation ("IBM") whereby IBM agreed to be the executional partner for certain aspects of the Joint Venture's business, including project management services, asset procurement and inventory financing, configuration and testing of equipment, site preparation, installation, maintenance services, and asset management. Services provided under this agreement commenced during the first quarter of fiscal 1999.

During 1998, the Joint Venture entered into an agreement with a hospitality corporation ("Corporation") that represented various hotel chains. The agreement provided for the Corporation to purchase a minimum of 100 MBE Business Express(TM) units for installation. Through June 30, 1999, all but two installations were completed. Revenues generated in connection with this agreement represented 49% of the fiscal year 1999 consolidated revenues.

## Notes to Consolidated Financial Statements (continued)

## 3. Joint Venture (continued)

During September 1998, MBE commenced a legal action against the Company in the Superior Court of the State of California, (subsequently removed to the United States District Court for the southern District of California), alleging that 195 terminals purchased by MBE were defective and a refund of \$141,260 plus lost profits (claimed to be several hundred thousand dollars) were sought by MBE. MBE further claimed that it was not obligated to purchase 600 additional terminals ordered in April 1998. The Company filed a counterclaim against MBE which claimed numerous areas where MBE breached the Joint Venture Agreement, breached its fiduciary responsibility, and trade libel. The counterclaim seeks recovery from MBE of monetary damages caused by MBE's actions, including lost profits, consequential damages and/or incidental damages and punitive damages for a total amount in excess of \$10 million. As of June 30, 1999, limited discovery has been conducted by the parties and a trial date has not been set. Discovery is to be completed by February 18, 2000. On May 14, 1999 the Company notified MBE that the Company was terminating the Joint Venture Agreement, citing the numerous breaches of the Joint Venture Agreement. The Company believes the claims made by MBE are without merit and it will prevail in this matter. Accordingly, there has been no provision recorded in the consolidated financial statements.

At June 30, 1999 and 1998 the Joint Venture recorded accounts payable to MBE of approximately \$64,000 and \$64,000, respectively which principally represents amounts payable for inventory and other expenditures paid by MBE on behalf of the Joint Venture.

## 4. Property and Equipment

Property and equipment consist of the following:

	June 30	
	1999	1998
	-----	-----
Control systems	\$410,983	\$357,021
Furniture and equipment	105,286	75,710
Vehicles	10,258	10,259
	-----	-----
	526,527	442,990
Less accumulated depreciation	382,857	291,084
	-----	-----
	\$143,670	\$151,906
	=====	=====

Depreciation expense was approximately \$92,000 and \$116,000 for the years ended June 30, 1999 and 1998, respectively.

## Notes to Consolidated Financial Statements (continued)

## 5. Accrued Expenses

Accrued expenses consist of the following:

	June 30	
	1999	1998
	-----	-----
Accrued product warranty costs	\$ 117,300	\$102,520
Accrued professional fees	101,000	76,000
Accrued compensation and related sales commissions	88,135	79,147
Accrued other	64,484	30,524
Accrued software license and support costs	60,312	84,297
Accrued sales tax	46,347	44,630
Advanced customer billings	20,970	13,525
	-----	-----
	\$ 498,548	\$430,643
	=====	=====

## 6. Related Party Transactions

At June 30, 1999 and 1998, approximately \$84,000 and \$26,000, respectively, of the Company's accounts payable were due to several shareholders for various legal and technical services performed. During the years ended June 30, 1999 and 1998, the Company incurred approximately \$381,000 and \$340,000, respectively for these services.

## 7. Commitments

o During May 1999, the Company entered into an agreement with IBM whereby IBM agreed to be the executional partner for certain aspects of the Company's business, including project management services, asset procurement, configuration and testing of equipment, site preparation, installation, maintenance services, and asset management. The agreement expands the original agreement entered into with the Joint Venture (Note 3) and provides for an increase from 1,000 to 5,000 locations and expanded the array of USA products which are eligible for IBM installation. In connection with this agreement, the Company has also entered into an inventory financing arrangement with IBM Credit Corporation whereby IBM Credit Corporation granted the Company an equipment line of credit of up to \$1.5 million. Interest accrues on the outstanding line of credit balance at 10% per annum. At June 30, 1999, \$804,485 was outstanding.



## Notes to Consolidated Financial Statements (continued)

## 7. Commitments (continued)

- o During November 1997, the Company entered into a new Employment and Non-Competition Agreement through June 30, 2000 (the Employment Agreement) with the Company's Chief Executive Officer, providing for a base annual salary of \$100,000. The Employment Agreement is automatically renewed annually thereafter unless canceled by either the Chief Executive Officer or the Company. In connection with the Employment Agreement, the Chief Executive Officer canceled an aggregate of 436,500 shares of Common Stock held in escrow in accordance with the terms of an agreement with Pennsylvania Securities Commission entered into at the time of the initial public offering. The Employment Agreement also granted the Chief Executive Officer in the event of a "USA Transaction," as defined, irrevocable and fully vested rights equal to that number of shares of Common Stock that when issued to him equals five percent (subsequently amended to eight percent during fiscal year 1999) of all the then issued and outstanding shares of the Company's Common Stock. The Chief Executive Officer is not required to pay any additional compensation for such shares. The stock rights have no expiration and are not affected by the Chief Executive Officer's termination of employment.
- o The Company conducts its operations from various facilities under operating leases. Rental expense under such arrangements was approximately \$83,000 and \$70,000 during the years ended June 30, 1999 and 1998, respectively. During the year ended June 30, 1999, the Company entered into agreements to lease \$29,576 of equipment which was accounted for as capital leases. This computer equipment is included in control systems in the accompanying consolidated financial statements. Lease amortization of \$25,076 and \$30,121 is included in depreciation expense for the years ended June 30, 1999 and 1998, respectively.

Future minimum lease payments subsequent to June 30, 1999 under capital and noncancelable operating leases are as follows:

	Capital Leases	Operating Leases
	-----	-----
2000	\$ 8,478	\$139,000
2001	8,478	135,000
2002	8,478	133,000
2003	8,478	132,000
2004, thereafter	4,413	126,000
	-----	-----
Total minimum lease payments	38,325	\$665,000
Less amount representing interest	11,348	=====
	-----	
Present value of net minimum lease payments	26,977	
Less current obligation under capital leases	4,393	
	-----	
Obligation under capital leases, less current portion	\$ 22,584	
	=====	

## Notes to Consolidated Financial Statements (continued)

## 8. Income Taxes

At June 30, 1999 and 1998, the Company had net operating loss carryforwards of approximately \$15,115,000 and \$11,231,000, respectively, to offset future taxable income expiring through 2013. At June 30, 1999 and 1998, the Company recorded a deferred tax asset of \$6,013,100 and \$4,905,000, respectively, which were reduced by a valuation allowance of the same amount as the realization of these deferred tax assets are not certain.

The deferred tax assets arose primarily from the use of different accounting methods for financial statement and income tax reporting purposes as follows:

	June 30	
	1999	1998
	-----	-----
Deferred tax asset:		
Net operating loss carryforwards	\$ 5,530,000	\$ 4,384,000
Compensation expense on stock option re-pricing	207,000	222,000
Deferred research and development costs	143,000	207,000
Deferred pre-operating costs	900	18,000
Other temporary differences	132,200	81,000
	-----	-----
	6,013,100	4,912,000
Deferred tax liabilities:		
Depreciation	-	(7,000)
	-----	-----
Deferred tax asset, net	6,013,100	4,905,000
Valuation allowance	(6,013,100)	(4,905,000)
	-----	-----
	\$ -	\$ -
	=====	=====

As of June 30, 1993, the timing and manner in which the Company can utilize operating loss carryforwards and future tax deductions for capitalized items in any year was limited by provisions of the Internal Revenue Code regarding changes in ownership of corporations. The Company believes that such limitation could have an impact on the ultimate realization of its carryforwards and future tax deductions (generated through June 30, 1993). Cumulative losses generated for income tax purposes after June 30, 1993 through June 30, 1999, may be subject to similar limitation.

## 9. Senior Note Offering

During September 1998, the Company's Board of Directors authorized a \$2,000,000 private placement offering (the "Senior Note Offering") of 200 units at a unit price of \$10,000. Each unit consisted of a 12% Senior Note in the principal amount of \$10,000, 1,500 1999-A Common Stock Purchase Warrants (subsequently increased to 2,000 Warrants) and 1,000 shares of Series B Equity Participating Preferred Stock (Series B). The Board of Directors also authorized the creation of 200,000 shares of the Series B. Each 1999-A Common Stock purchase warrant entitles the holder to purchase one share of Common Stock for \$1.00 at any time through December 31, 2001. During January 1999, the Board of Directors authorized the reduction of the exercise price of the 1999-A Common Stock purchase warrants to \$.50 through December 31, 1999. Each share of the Series B was automatically convertible into 4 shares of Restricted Common Stock at the time of a "USA Transaction," as defined in the Offering agreement. During January 1999, the Company's Board of Directors authorized the expanding of the rights of the Series B holders providing for each share of Series B to convert into 4 shares of Restricted Common Stock in the event of a reverse stock split.

During fiscal year 1999, the Company's Board of Directors authorized several increases to the allowable size of the Senior Note Offering with a total authorization of 500 units, \$5,000,000 in gross proceeds, 1,000,000 1999-A Common Stock Purchase Warrants and 500,000 shares of Series B Equity Participating Preferred Stock.

During January 1999, the Chief Executive Officer purchased ten units of the Senior Note Offering for \$100,000. The Board of Directors also approved the Chief Executive Officer's commitment to purchase an additional ten units for \$100,000 which will be funded by his foregoing salary from April 1, 1999 through June 30, 2000. At June 30, 1999, \$84,296 of this amount is included in subscriptions receivable.

The Senior Note Offering closed on June 23, 1999, generating net proceeds of \$4,106,440 through the sale of 466.8 units, the issuance of 933,600 1999-A Common Stock purchase warrants and the issuance of 466,800 shares of Series B. In connection with the reverse stock split approved by the Company's shareholders at the Annual Meeting on May 27, 1999 (Note 11), the 466,800 shares of Series B were converted into 1,867,200 shares of restricted Common Stock effective June 7, 1999. The estimated fair value of the debt issue costs consisting of the 1999-A Common Stock purchase warrants and the Restricted Common Stock issued in connection with this Offering in the amount of \$2,350,558 have been allocated to paid in capital. The resulting debt discount is being amortized over the term of the Senior Notes. Accumulated debt discount amortization at June 30, 1999 was \$35,494.

## Notes to Consolidated Financial Statements (continued)

## 10. Preferred Stock

The Preferred Stock authorized may be issued from time to time in one or more series, each series with such rights, preferences or restrictions as determined by the Board of Directors. Each share of Series A Preferred Stock shall have the right to one vote and is convertible at any time into one share of Common Stock (1.2 shares from March 31, 1997 to December 31, 1997). Each share of Common Stock entitles the holder to one voting right. Series A Convertible Preferred Stock provides for an annual cumulative dividend of \$.15 per share payable to the shareholders of record in equal parts on February 1 and August 1 of each year. Cumulative unpaid dividends at June 30, 1999 and 1998 amounted to \$3,328,442 and \$2,442,650, respectively. Cumulative unpaid dividends are convertible into common shares at \$10.00 per common share at the option of the shareholder (\$8.30 from March 31, 1997 to December 31, 1997). During the years ended June 30, 1999 and 1998, certain holders of the Preferred Stock converted 3,326 and 392,969 shares, respectively, into 3,326 and 466,453 shares of Common Stock, respectively. Certain of these shareholders also converted cumulative preferred dividends of \$116,661 and \$1,503,867, respectively, into 11,666 and 178,964 shares of Common Stock during the years ended June 30, 1999 and 1998, respectively. The Series A Preferred Stock may be called for redemption at the option of the Board of Directors at any time on and after January 1, 1998 for a price of \$11.00 per share plus payment of all accrued and unpaid dividends. No such redemption has occurred as of June 30, 1999. In the event of any liquidation, the holders of shares of Series A Preferred Stock issued shall be entitled to receive \$10.00 for each outstanding share plus all cumulative unpaid dividends. If funds are insufficient for this distribution, the assets available will be distributed ratably among the preferred shareholders.

## 11. Common Stock Transactions

On May 27, 1999 the Company's shareholders approved a Plan of Recapitalization and amendment to the Company's Articles of Incorporation to effect a 1-for-10 reverse split of Common Stock. The reverse stock split became effective on June 7, 1999. All Common Stock per share amounts, and related Common Stock equivalents have been restated to reflect the reverse split in the accompanying consolidated financial statements.

The shareholders also approved an increase in the number of authorized shares of undesignated Series Preferred Stock from 1,200,000 to 1,800,000 and an increase in the number of authorized shares of Series A Preferred Stock from 787,591 to 900,000.

## 11. Common Stock Transactions (continued)

During July 1998, the Company's Board of Directors authorized a \$700,000 private placement offering of 70 units at a unit price of \$10,000. Each unit includes 2,000 shares of Convertible Preferred Stock and 5,000 1998-B Common Stock purchase warrants at an exercise price of \$1.50 through January 1, 1999 and \$4.00 per warrant thereafter. The Company terminated the offering on August 17, 1998, with 27.8 units sold generating net proceeds of \$234,485 (\$278,000 less offering costs of \$43,515). During January 1999, the Company's Board of Directors reduced the exercise price of the 1998-B warrants to \$1.00 per warrant through March 31, 1999. During fiscal year 1999, 134,000 warrants were exercised generating gross proceeds of \$134,000. At June 30, 1999, there were 5,000 1998-B Common Stock purchase warrants outstanding from this offering.

During January 1998, the Company's Board of Directors authorized a \$750,000 private placement offering of 75 units at a unit price of \$10,000. Each unit included 2,000 shares of Convertible Preferred Stock and 5,000 1998-A Common Stock purchase warrants at an exercise price of \$1.50 through June 30, 1998 and \$4.00 thereafter through March 5, 2003. The Company terminated this offering during February 1998 selling all 75 units and generating net proceeds of \$701,510 (\$750,000 less offering costs of \$48,490). During fiscal year 1998, 371,000 1998-A Common Stock purchase warrants were exercised at \$1.50 per warrant generating gross proceeds of \$556,500. At June 30, 1999, there were 4,000 1998-A Common Stock purchase warrants outstanding from this offering.

During June 1997, the Company closed on a private placement offering of Convertible Debentures (the Placement) resulting in net proceeds to the Company of \$451,169. The Placement was issued pursuant to Regulation S of the Securities Act of 1933 to five qualified purchasers, as defined, (Purchasers). The Placement was convertible by the Purchasers into Common Stock at any time after 45 days from issuance (August 7, 1997) and through the Placement's maturity of June 1, 2002 at the option of the Purchaser. The conversion or redemption rate (hereinafter referred to as conversion rate) was equal to the lesser of 100% of the average closing bid price of the Common Stock for the five trading days immediately preceding June 23, 1997, or 65% of the average closing bid price of the Common Stock for the five trading days immediately preceding the date prior to the conversion or redemption date. Upon maturity (unless converted or redeemed prior thereto), the Placement would be automatically converted into shares of Common Stock at the conversion rate. During fiscal year 1998, the entire Placement was converted (at varying prices) into 191,574 common shares. Certain affiliates of the placement agent

## Notes to Consolidated Financial Statements (continued)

## 11. Common Stock Transactions (continued)

were issued non-detachable Common Stock purchase warrants, exercisable immediately, to purchase up to 200,000 shares of the Company's Common Stock at \$2.00 per warrant at any time through June 22, 2002. Through June 30, 1999, 90,000 of these warrants were exercised generating gross proceeds of \$180,000. At June 30, 1999, there were 110,000 purchase warrants outstanding.

In connection with a March 1997 private placement offering, the Company issued 160,000 1997 Common Stock purchase warrants at an exercise price of \$2.00 per warrant through October 31, 1997 and \$4.00 per warrant thereafter through February 28, 2002. Through June 30, 1999, 158,500 warrants were exercised at \$2.00 per warrant generating gross proceeds of \$317,000. At June 30, 1999, 1,500 of the 1997 Common Stock purchase warrants were outstanding.

In connection with a November 1996 private placement offering, the Company issued 37,400 1996-B Common Stock purchase warrants at an exercise price of \$2.00 per share through October 31, 1997 and \$3.00 per warrant thereafter through February 28, 2002. Through June 30, 1999, 33,400 warrants were exercised at \$2.00 per warrant generating gross proceeds of \$66,800. At June 30, 1999, 4,000 of the 1996-B Common Stock purchase warrants were outstanding.

In connection with a 1996 private placement offering, the Company issued 520,000 1996 Common Stock purchase warrants at an exercise price of \$4.00 through December 31, 1996 and \$5.00 per warrant thereafter through May 31, 2001. Through June 30, 1999, 433,200 warrants were exercised generating gross proceeds of \$922,900. At June 30, 1999, 86,800 1996 Common Stock purchase warrants were outstanding.

In connection with a 1995 private placement offering, the Company issued 141,400 1995 Common Stock purchase warrants at an exercise price of \$2.50 through October 1997 and \$5.00 per warrant thereafter through January 31, 2001. Through June 30, 1999, 74,100 warrants were exercised at \$2.50 per warrant generating gross proceeds of \$185,250. At June 30, 1999, 67,300 1995 Common Stock purchase warrants were outstanding.

At June 30, 1999 and 1998, the Company had outstanding 11,740 and 15,280 Common Stock purchase rights, respectively. These Common Stock purchase rights, issued in 1993, allow the holder to purchase shares of the Company's Common Stock at \$10.00 per share and are exercisable through June 30, 2000. During fiscal year 1999, the Company's Board of Directors authorized a reduction in the exercise price from \$10.00 per share to \$1.00 per share from January 21, 1999 through March 31, 1999.

## Notes to Consolidated Financial Statements (continued)

## 12. Stock Options

The Company's Board of Directors has granted options to employees and consultants to purchase shares of Common Stock at or above fair market value. All options granted have 5 year terms and vest and become fully exercisable on the schedule established by the contract which granted the option. During April 1998, the Company's Board of Directors authorized the reduction in the exercise price of 189,600 options from \$2.50-\$4.50 per share to \$.50-\$2.00 per share. As the new exercise prices were below the fair market value of the Company's common stock on the date of repricing, the Company recorded a non-cash charge to compensation expense of approximately \$555,000 during fiscal year 1998.

The following table summarizes all stock option activity:

	Common Shares Under Options Granted	Exercise Price Per Share
	-----	-----
Balance at June 30, 1997	397,100	\$ .50-\$5.00
Granted	30,000	\$ 4.50-\$5.00
Exercised	(7,000)	\$ .50
Balance at June 30, 1998	420,100	\$ .50-\$5.00
Granted	542,000	\$ 2.00
Exercised	(45,000)	\$ 1.00
	-----	-----
Balance at June 30, 1999	917,100	\$ .50-\$5.00
	=====	=====

The price range of the outstanding and exercisable common stock options at June 30, 1999 is as follows:

Option Exercise Prices	Options Outstanding	Weighted Average Remaining Contract Life (Yrs.)	Weighted Exercise Price	Options Exercisable	Weighted Average Exercise Price
-----	-----	-----	-----	-----	-----
\$ 0.50	5,000	2.02	\$ 0.50	5,000	\$ 0.50
\$ 1.50	132,100	1.31	\$ 1.50	132,100	\$ 1.50
\$ 2.00	549,500	4.76	\$ 2.00	346,167	\$ 2.00
\$ 2.50	131,500	2.76	\$ 2.50	131,500	\$ 2.50
\$ 4.50	84,000	2.34	\$ 4.50	84,000	\$ 4.50
\$ 5.00	15,000	2.55	\$ 5.00	15,000	\$ 5.00
	-----		-----	-----	
	917,100		\$ 0.50-\$5.00	713,767	
	=====		=====	=====	

## Notes to Consolidated Financial Statements (continued)

## 12. Stock Options (continued)

Pro forma information regarding net loss and net loss per common share determined as if the Company is accounting for stock options granted under the fair value method of SFAS 123 is as follows:

	June 30	
	1999	1998
	-----	-----
Net loss applicable to common shares as reported under APB 25:		
	\$ (4,654,077)	\$ (5,322,847)
Stock option expense per SFAS 123	(620,236)	(391,704)
	-----	-----
Pro forma net loss	\$ (5,274,313)	\$ (5,714,551)
	=====	=====
Loss per common share as reported	\$ (1.07)	\$ (1.51)
Pro forma net loss per common share	\$ (1.21)	\$ (1.62)

The fair value for the Company's stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for fiscal years 1999 and 1998; risk-free interest rate of 6.0% and 5.5%, respectively; an expected life of 2 years; no expected cash dividend payments on common stock and volatility factors of the expected market price of the Company's common stock, based on historical volatility of 1.364 and 0.793, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. As noted above, the Company's stock options are vested over an extended period. In addition, option models require the input of highly subjective assumptions including future stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can materially affect the fair value estimates, in management's opinion, the Black-Scholes model does not necessarily provide a reliable measure of the fair value of the Company's stock options. The Company's pro forma information reflects the impact of the reduction in price of certain stock options.



13. Retirement Plan

During September 1998, the Company adopted a Savings and Retirement Plan (the Plan) which allows employees who have attained the age of 21 and have completed one year of service to make voluntary contributions up to a maximum of 15% of their annual compensation, as defined in the Plan. The Plan does not provide for any matching contribution by the Company, however, the Board of Directors may authorize, at its sole discretion, Company contributions to the Plan. During fiscal year 1999 and 1998, there were no contributions made to the Plan by the Company.

14. Subsequent Events

During July 1999, the Company's Board of Directors granted a new director 10,000 options to purchase Common Stock of the Company at \$2.00 per share. The Board also granted to two consultants a total of 250,000 Common Stock purchase warrants at \$2.50 per share in connection with financial and public relations services. During August 1999, the Company's Board of Directors issued to various employees and consultants a total of 377,800 shares of Common Stock at \$2.00 per share for services rendered in fiscal year 2000 or to be rendered, in lieu of cash compensation.

Subsequent to June 30, 1999 136,000 1999-A Common Stock purchase warrants were exercised at \$.50 per warrant, generating gross proceeds of \$68,000.

Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

None

PART III

Item 9. Directors and Executive Officers of the Registrant

MANAGEMENT

Directors and Executive Officers

The Directors and executive officers of the Company, as of June 30, 1999, together with their ages and business backgrounds are as follows.

Name ----	Age ---	Position(s) Held -----
George R. Jensen, Jr.	50	Chief Executive Officer, Chairman of the Board of Directors
Stephen P. Herbert	36	President, Director
Haven Brock Kolls, Jr.	33	Vice President - Research and Development
Leland P. Maxwell	52	Senior Vice President, Chief Financial Officer, Treasurer
Peter G. Kapourellos	79	Director
William W. Sellers(1)(2)	77	Director
Henry B. duPont Smith	37	Director
William L. Van Alen, Jr.(1)(2)	65	Director
Steven Katz(1)	50	Director
Douglas M. Lurio(2)	42	Director

- - - - -  
(1) Member of Compensation Committee  
(2) Member of Audit Committee

Each Director holds office until the next Annual Meeting of Shareholders and until his successor has been elected and qualified.

George R. Jensen, Jr., has been Chief Executive Officer and Director of the Company since January 1992. Mr. Jensen is the founder, and was Chairman, Director, and Chief Executive Officer of American Film Technologies, Inc. ("AFT") from 1985 until 1992. AFT was in the business of creating color imaged versions of black-and-white films. From 1979 to 1985, Mr. Jensen was Chief Executive Officer and President of International Film Productions, Inc. Mr. Jensen was the Executive Producer of the twelve hour miniseries, "A.D.", a \$35 million dollar production filmed in Tunisia. Procter and Gamble, Inc., the primary source of funds, co-produced and sponsored the epic, which aired in March 1985 for five consecutive nights on the NBC network. Mr. Jensen was also the Executive Producer for the 1983 special for public television, "A Tribute to Princess Grace". From 1971 to 1978, Mr. Jensen was a securities broker, primarily for the firm of Smith Barney, Harris Upham. Mr. Jensen was chosen 1989 Entrepreneur of the Year in the high technology category for the Philadelphia, Pennsylvania area by Ernst & Young LLP and Inc. Magazine. Mr. Jensen received his Bachelor of Science Degree from the University of Tennessee and is a graduate of the Advanced Management Program at the Wharton School of the University of Pennsylvania.

Stephen P. Herbert was elected a Director of the Company in April 1996, and joined the Company on a full-time basis on May 6, 1996. Prior to joining the Company and since 1986, Mr. Herbert had been employed by Pepsi-Cola, the beverage division of PepsiCo, Inc. From 1994 to April 1996, Mr. Herbert was a Manager of Market Strategy. In such position he was responsible for directing development of market strategy for the vending channel and subsequently the supermarket channel for Pepsi-Cola in North America. Prior thereto, Mr. Herbert held various sales and management positions with Pepsi-Cola. Mr. Herbert graduated with a Bachelor of Science degree from Louisiana State University.

Haven Brock Kolls, Jr., joined the Company on a full-time basis in May 1994 and was elected an executive officer in August 1994. From January 1992 to April 1994, Mr. Kolls was Director of Engineering for International Trade Agency, Inc., an engineering firm specializing in the development of control systems and management software packages for use in the vending machine industry. Mr. Kolls was an electrical engineer for Plateau Inc. from 1988 to December 1992. His responsibilities included mechanical and electrical computer-aided engineering, digital electronic hardware design, circuit board design and layout, fabrication of system prototypes and software development. Mr. Kolls is a graduate of the University of Tennessee with a Bachelor of Science Degree in Engineering.

Leland P. Maxwell joined the Company on a full-time basis on February 24, 1997 as Chief Financial Officer, Senior Vice President and Treasurer. Prior to joining the Company, Mr. Maxwell was the corporate controller for Klearfold, Inc., a privately-held manufacturer of specialty consumer packaging. From 1992 to 1996, Mr. Maxwell was the regional controller for Jefferson Smurfit/Container Corporation of America, a plastic packaging manufacturer, and from 1986 to 1992 was the divisional accounting manager. Prior thereto, he held financial positions with Safeguard Business Systems and Smithkline-Beecham. Mr. Maxwell received a Bachelor of Arts degree in History from Williams College and a Master of Business Administration-Finance from The Wharton School of the University of Pennsylvania. Mr. Maxwell is a Certified Public Accountant.

Peter G. Kapourellos joined the Board of Directors of the Company in May 1993. Mr. Kapourellos has been a branch manager of Advantage Capital Corporation, a subsidiary of Primerica Corporation, since 1972. He has been a member of the Millionaire Production Club since 1972. Mr. Kapourellos is currently the Vice President for American Capital High Yield Bond Fund and of the American Capital Equity Income Fund, which are publicly traded mutual funds.

William W. Sellers joined the Board of Directors of the Company in May 1993. Mr. Sellers founded The Sellers Company in 1949 which has been nationally recognized as the leader in the design and manufacture of state-of-the-art equipment for the paving industry. Mr. Sellers has been awarded five United States patents and several Canadian patents pertaining to this equipment. The Sellers Company was sold to Mechtron International in 1985. Mr. Sellers is Chairman of the Board of Sellers Process Equipment Company which sells products and systems to the food and other industries. Mr. Sellers is actively involved in his community. Mr. Sellers received his undergraduate degree from the University of Pennsylvania.

Henry B. duPont Smith joined the Board of Directors of the Company in May 1994. Since January 1992, Mr. Smith has been a Vice President of The Rittenhouse Trust Company and since September 1991 has been a Vice President of Rittenhouse Financial Services, Inc. From September 1991 to December 1992, he was a registered representative of Rittenhouse Financial Securities, Inc. Mr. Smith was an Assistant Vice President of Mellon Bank, N.A. from March 1988 to July 1991, and an investment officer of Provident National Bank from March 1985 to March 1988. Mr. Smith received a Bachelor of Arts degree in Accounting in 1984 from Franklin & Marshall College.

William L. Van Alen, Jr., joined the Board of Directors of the Company in May 1993. Mr. Van Alen is President of Cornerstone Entertainment, Inc., an organization engaged in the production of feature films of which he was a founder in 1985. Since 1996, Mr. Van Alen has been President and a Director of The Noah Fund, a publicly traded mutual fund. Prior to 1985, Mr. Van Alen practiced law in Pennsylvania for twenty-two years. Mr. Van Alen received his undergraduate degree in Economics from the University of Pennsylvania and his law degree from Villanova Law School.

Steven Katz joined the Board of Directors in May 1999. He is President of Steven Katz & Associates, Inc., a management consulting firm specializing in strategic planning and corporate development for technology and service-based companies in the health care, environmental, telecommunications and Internet markets. Mr. Katz's prior experience includes five years with Price Waterhouse & Co. in audit, tax and management advisory services; two years of corporate planning with Revlon, Inc.; five years with National Patent Development Corporation (NPDC) in strategic planning, merger and acquisition, technology in-licensing and out-licensing, and corporate turnaround experience as President of three NPDC subsidiaries; and two years as a Vice President and General Manager of a non-banking division of Citicorp, N.A.

Douglas M. Lurio joined the Board of Directors of the Company in June 1999. Mr. Lurio is President of Lurio & Associates, P.C., attorneys-at-law, which he founded in 1991. He specializes in the practice of corporate and securities law. Prior thereto, he was a partner with Dilworth, Paxson LLP. Mr. Lurio received a Bachelor of Arts Degree in Government from Franklin & Marshall College, a Juris Doctor Degree from Villanova Law School, and a Masters in Law (Taxation) from Temple Law School.

On July 30, 1999, the Board of Directors approved the appointment of Edwin R. Boynton as a Director of the Company.

Item 10. Executive Compensation

The following table sets forth certain information with respect to compensation paid or accrued by the Company during the fiscal years ended June 30, 1997, June 30, 1998 and June 30, 1999 to the individual acting in the capacity of Chief Executive Officer of the Company. No individual who was serving as an executive officer of the Company at the end of the fiscal years ended June 30, 1997, June 30, 1998 or June 30, 1999 received salary and bonus in excess of \$100,000 in any such fiscal year.

Summary Compensation Table

Name and Principal Position -----	Fiscal Year -----	Annual Compensation -----	
		Salary -----	Bonus -----
George R. Jensen, Jr., Chief Executive Officer, President	1999	\$100,000	\$0
	1998	\$100,000	\$0
	1997	\$100,000	\$0

## Executive Employment Agreements

The Company has entered into an employment agreement with Mr. Jensen which expires June 30, 2001. The Agreement is automatically renewed from year to year unless canceled by Mr. Jensen or the Company. The agreement provides for an annual base salary of \$100,000 per year. Mr. Jensen is entitled to receive such bonus or bonuses as may be awarded to him by the Board of Directors. In determining whether to pay such a bonus, the Board would use its subjective discretion. The Agreement requires Mr. Jensen to devote his full time and attention to the business and affairs of the Company, and obligates him not to engage in any investments or activities which would compete with the Company during the term of the Agreement and for a period of one year thereafter.

As part of the Agreement, Mr. Jensen canceled an aggregate of 436,500 shares of Common Stock of the Company which had been beneficially owned by him and which had been held in escrow pursuant to the Escrow Agreement dated December 29, 1993 by and between the Company, Mr. Jensen and certain other parties. In January 1994, and at the request of the Pennsylvania Securities Commission, Mr. Jensen placed all of the shares of Common Stock beneficially owned by him into escrow as a condition of the Company's initial public offering being declared effective in Pennsylvania. The shares of Common Stock canceled by Mr. Jensen had been subject to cancellation if certain performance goals were not met by the Company on or before June 30, 1998.

The agreement also grants to Mr. Jensen in the event a "USA Transaction" (as defined below) occurs after the date thereof that number of shares of Common Stock as shall when issued to him equal five percent (subsequently increased to eight percent) of all the then issued and outstanding shares of Common Stock (the "Rights"). Mr. Jensen is not required to pay any additional consideration for such shares. At the time of any USA Transaction, all of the shares of Common Stock underlying the Rights are automatically deemed to be issued and outstanding immediately prior to any USA Transaction, and are entitled to be treated as any other issued and outstanding shares of Common Stock in connection with such USA Transaction.

The term USA Transaction is defined as (i) the acquisition of fifty-one percent or more of the then outstanding voting securities entitled to vote generally in the election of Directors of the Company by any person, entity or group, or (ii) the approval by the shareholders of the Company of a reorganization, merger, consolidation, liquidation, or dissolution of the Company, or the sale, transfer, lease or other disposition of all or substantially all of the assets of the Company.

The Rights are irrevocable and fully vested, have no expiration date, and will not be affected by the termination of Mr. Jensen's employment with the Company for any reason whatsoever. If a USA Transaction shall occur at a time when there not a sufficient number of authorized but unissued shares of Common Stock, then the Company shall as a condition of such USA Transaction promptly take any and all appropriate action to make available a sufficient number of shares of Common Stock. In the alternative, the Company may structure the USA Transactions so that Mr. Jensen would receive the same amount and type of consideration in connection with the USA Transaction as any other holder of Common Stock.

On January 21, 1999, Mr. Jensen purchased ten (10) units of the recently completed private debt placement offering for \$100,000. In full payment for such Units, Mr. Jensen has agreed to forego any base salary otherwise payable to him under his employment agreement during the period of time commencing on April 1, 1999 and ending on June 30, 2000, or such longer period of time as may be required based upon his monthly net base salary after all applicable withholding taxes and other deductions.

During June 1999, the Board of Directors approved an amendment to Mr. Jensen's employment agreement to increase the number of shares of Common Stock issuable to him upon the occurrence of a "USA Transaction from five percent to eight percent.

The Company has entered into a one-year employment agreement with Mr. Herbert which expires on April 30, 2000. The agreement is automatically renewed from year to year thereafter unless canceled by Mr. Herbert or the Company. The Agreement provides for an annual base salary of \$90,000 per year, provided, that Mr. Herbert's base salary shall never be less than ninety percent of that of the Chief Executive Officer of the Company. Mr. Herbert is entitled to receive such bonus or bonuses as the Board of Directors may award to him. The Agreement requires Mr. Herbert to devote his full time and attention to the business and affairs of the Company and obligates him not to engage in any investments or activities which would compete with the Company during the term of the agreement and for a period of one year thereafter.

Mr. Kolls has entered into a one-year employment agreement with the Company which expires on April 30, 2000, and is automatically renewed from year to year thereafter unless canceled by Mr. Kolls or the Company. The agreement provides for an annual base salary of \$90,000 per year. Mr. Kolls is also entitled to receive such bonus or bonuses as may be awarded to him by the Board of Directors. The Agreement requires Mr. Kolls to devote his full time and attention to the business and affairs of the Company, and obligates him not to engage in any investments or activities which would compete with the Company during the term of his agreement and for a period of one year thereafter.

Mr. Maxwell has entered into a one-year employment agreement with the Company which expires on February 28, 2000, and is automatically renewed from year to year thereafter unless cancelled by Mr. Maxwell or the Company. The agreement provides for an annual base salary of \$90,000 per year, provided, that Mr. Maxwell's base salary shall never be less than eighty-five percent of that of the Chief Executive Officer of the Company. Mr. Maxwell is also entitled to receive such bonus or bonuses as the Board of Directors may award to him. The Agreement requires Mr. Maxwell to devote his full time and attention to the business and affairs of the Company, and obligates him not to engage in any investments or activities which would compete with the Company during the term of the agreement and for a period of one year thereafter.

#### Director Compensation and Stock Options

Members of the Board of Directors do not currently receive any cash compensation for serving on the Board of Directors or any Committee thereof.

In July 1993, the Company issued to each of Messrs. Kapourellos, Sellers, and Van Alen fully vested options to purchase 10,000 shares of Common Stock at an exercise price of \$2.50 per share. In March 1998, the expiration date of these options was extended from June 30, 1998 to June 30, 2000 and in April 1998, the exercise price was reduced from \$2.50 to \$1.50.

In March 1995, the Company issued to Mr. Smith fully vested options to purchase 10,000 shares of Common Stock, to Mr. Sellers fully vested options to purchase 5,500 shares of Common Stock, to Mr. Kapourellos fully vested options to purchase 7,000 shares of Common Stock, and to Mr. Van Alen fully vested options to purchase 2,500 shares of Common Stock. The exercise price of these options is \$2.50 per share and they must be exercised on or before February 29, 2000. In April 1998, the exercise price of these options was reduced from \$2.50 to \$1.50.

In March 1998, the Company extended the expiration date of the following options to purchase shares of Common Stock from June 30, 1998 to the close of business on June 30, 2000: Peter G. Kapourellos - 10,000 options; William W. Sellers - 10,000 options; Keith L. Sterling - 10,000 options; and William L. Van Alen, Jr. - 10,000 options.

In April 1998, the Company reduced from \$2.50 to \$1.50 the exercise price of the following options to purchase Common Stock issued to the following Directors of the Company: Peter G. Kapourellos - 17,000 options; William W. Sellers - 15,500 options; William L. Van Alen, Jr. - 12,500 options; and Henry B. duPont Smith - 10,000 options.

In November 1998, all of the Common Stock underlying the options held by all Directors was registered by the Company under the Act for resale by the holder thereof. Such registration was at the Company's cost and expense.

During June and July 1999, the Company granted 10,000 options to each of the seven Directors who were not executive officers of the Company. Each option is exercisable at \$2.00 per share at any time for five years following the vesting thereof.

The Board of Directors is responsible for awarding stock options. Such awards are made in the subjective discretion of the Board. Other than the repricing of the options by the Company in April 1998, the exercise price of all the above options represents on the date of issuance of such options an amount equal to or in excess of the market value of the Common Stock issuable upon the exercise of the options. In connection with the April 1998 repricing of stock options, the exercise prices of all these fully vested options were below the fair market value on the date or repricing, therefore, the Company recorded a charge to compensation expense during fiscal year 1998.

All of the foregoing options are non-qualified stock options and not part of a qualified stock option plan and do not constitute incentive stock options as such term is defined under Section 422 of the Internal Revenue Code, as amended, and are not part of an employee stock purchase plan as described in Section 423 thereunder.

#### Executive Stock Options

Keith L. Sterling resigned as the Executive Vice President - Systems, Chief Information Officer, Secretary and Director of the Company effective April 3, 1998 for personal reasons. The Company agreed to permanently reduce the exercise price of Mr. Sterling's options to purchase 45,000 shares of Common Stock to \$1.00 per share from \$2.50 per share and \$4.50 per share, and accelerated the vesting of 2,500 options to April 1998. Mr. Sterling agreed to act as a consultant through June 30, 1998.

In April 1998, the Company issued to each of Messrs. Herbert, Kolls and Maxwell options to purchase up to 5,000 shares of Common Stock at \$4.50 per share. The options become vested over a one-year period at the rate of 1,200 per quarter and must be exercised within five years of vesting.

In April 1998, the Company permanently reduced the exercise price of the following options to purchase Common Stock issued to the following executives: Haven Brock Kolls, Jr. - 10,000 options from \$2.50 to \$1.50; Stephen P. Herbert - 10,000 options from \$4.50 to \$1.50; and Leland P. Maxwell - 10,000 options from \$4.50 to \$1.50.

In June 1999, the Company granted an aggregate of 470,000 options to the executive officers as follows: Mr. Jensen - 180,000 options; Mr. Herbert - 110,000; Mr. Kolls - 100,000 options; Mr. Maxwell - 40,000 options; Mr. Lawlor - 20,000 options; Mr. Donahue - 20,000 options. All of Mr. Jensen's options became vested immediately. All of the other executive officers' options would vest as follows: one-third immediately; one-third on June 17, 2000, and one-third on June 17, 2001. Each option is exercisable at \$2.00 per share at any time for five years following vesting thereof.

The Board of Directors is responsible for awarding stock options. Such awards are made in the subjective discretion of the Board. Other than the repricing of the options by the Company in April 1998, the exercise price of all the above options represents on the date of issuance of such options an amount equal to or in excess of the market value of the Common Stock issuable upon the exercise of the options. In connection with the April 1998 of stock options repriced, the exercise prices of all these options were below the fair market value on the date of the repricing, therefore the Company recorded a charge to compensation expense during fiscal year 1998.

All of the foregoing options are non-qualified stock options and not part of a qualified stock option plan and do not constitute incentive stock options as such term is defined under Section 422 of the Internal Revenue Code, as amended, and are not part of an employee stock purchase plan as described in Section 423 thereunder.

#### Item 11. Security Ownership of Certain Beneficial Owners and Management

##### Common Stock

The following table sets forth the beneficial ownership of the Common Stock of each of the Company's directors and executive officers, as well as by the Company's directors and executive officers as a group. Except as set forth below, the Company is not aware of any beneficial owner of more than five percent of the Common Stock. Except as otherwise indicated, the Company believes that the beneficial owners of the Common Stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable.



Name and Address of Beneficial Owner -----	Number of Shares of Common Stock Beneficially Owned(1) -----	Percent of Class(2) -----
George R. Jensen, Jr. 16 Marlborough Road Newtown Square, Pennsylvania 19073	460,000 shares(3)	4.93%
Stephen P. Herbert 536 West Beach Tree Lane Strafford, Pennsylvania 19087	97,717 shares(4)	1.05%
Haven Brock Kolls, Jr. 52 Norwood House Road Downingtown, PA 19335	93,183 shares(5)	1.00%
Leland P. Maxwell 129 Windham Drive Langhorne, Pennsylvania 19047	38,383 shares(6)	*
Edwin R. Boynton 104 Leighton Drive Bryn Mawr, Pennsylvania 19010	55,500 shares(7)	*
Peter G. Kapourellos 1515 Richard Drive West Chester, Pennsylvania 19380	41,300 shares(8)	*
Steven Katz 20 Rebel Run Drive East Brunswick, New Jersey 08816	5,000 shares(9)	*
Douglas M. Lurio 1760 Market Street, Suite 1300 Philadelphia, Pennsylvania 19103	34,533 shares(10)	*
William W. Sellers 394 East Church Road King of Prussia, Pennsylvania 19406	166,075 shares(11)	1.78%
Henry B. duPont Smith 350 Mill Bank Road Bryn Mawr, Pennsylvania 19010	50,000 shares(12)	*
William L. Van Alen, Jr. Cornerstone Entertainment, Inc. P.O. Box 727 Edgemont, Pennsylvania 19028 All Directors and Executive Officers As a Group (11 persons)	32,500 shares(13)       1,074,190 shares(14)	*       11.50%

- - - - -  
\*Less than one percent (1%)

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and derives from either voting or investment power with respect to securities. Shares of Common Stock issuable upon conversion of the Preferred Stock, or shares of Common Stock issuable upon exercise of options currently exercisable, or exercisable within 60 days of June 30, 1999, are deemed to be beneficially owned for purposes hereof.

(2) On June 30, 1999 there were 6,191,097 shares of Common Stock and 640,577 shares of Series A Preferred Stock issued and outstanding. For purposes of computing the percentages under this table, it is assumed that all shares of issued and outstanding Preferred Stock have been converted into 640,577 shares of Common Stock, that all of the options or purchase rights to acquire Common Stock which have been issued and are fully vested as of June 30, 1999 (or within 60-days of June 30, 1999) have been converted into 730,507 shares of Common Stock. Of the 928,840 options or purchase rights to acquire Common Stock issued as of June 30, 1999, only 730,507 are vested (or become vested within 60-days), and are included in this table. For purposes of computing such percentages it has also been assumed that all of the remaining 1995 Warrants have been exercised for 67,300 shares of Common Stock, all of the remaining 1996 Warrants have been exercised for 86,800 shares of Common Stock, that all of the 1996-B Warrants have been exercised for 4,000 shares of Common Stock, that all of the 1997 Warrants have been exercised for 1,500 shares of Common Stock, that all of the Warrants issued to affiliates and/or consultants to GEM Advisors, Inc. have been exercised for 110,000 shares of Common Stock, that all of the 1998-A Warrants have been exercised for 4,000 shares of Common Stock, that all of the 1998-B Warrants have been exercised for 5,000 shares of Common Stock, and all of the accrued and unpaid dividends on the Preferred Stock as of June 30, 1999 have been converted, into 332,844 shares of Common Stock. It has also been assumed that all 933,600 of the 1999-A Warrants have been exercised and converted into 933,600 shares of Common Stock. Therefore, for purposes of computing the percentages under this table, there are 9,107,225 shares of Common Stock issued and outstanding.

(3) Includes 200,000 shares of Common Stock held by Mr. Jensen with his children as joint tenants with right of survivorship, 180,000 shares of Common Stock issuable upon the exercise of options, and 40,000 shares of Common Stock issuable upon the exercise of the 1999-A Warrants. Does not include the right granted to Mr. Jensen under his Employment Agreement to receive eight percent (8%) of the issued and outstanding Common Stock upon the occurrence of a USA Transaction (as defined herein). See "Executive Employment Agreements".

(4) Includes 91,666 shares of Common Stock issuable to Mr. Herbert upon the exercise of options, 2,000 shares issuable to his spouse upon the exercise of 1999-A Warrants, and 4,000 shares of Common Stock owned by his spouse.

(5) Includes 73,333 shares of Common Stock issuable to Mr. Kolls upon the exercise of options, 6,000 shares issuable to his spouse upon the exercise of 1999-A Warrants, and 12,000 shares of Common Stock owned by his spouse.

(6) Includes 38,333 shares of Common Stock issuable to Mr. Maxwell upon the exercise of options.

(7) Includes 5,500 shares of Common Stock issuable upon conversion of the 5,500 shares of Series A Preferred Stock. Includes 5,000 vested shares of Common Stock issuable upon exercise of options. Includes 10,000 shares of Common Stock issuable upon exercise of the 1999-A Warrants. Does not include any shares of Common Stock issuable upon conversion of any accrued and unpaid dividends in the Series A Preferred Stock. Mr. Boynton was appointed a Director of the Company by the Board of Directors on July 30, 1999.

(8) Includes 1,000 shares of Common Stock issuable upon the conversion of 1,000 shares of Preferred Stock beneficially owned by Mr. Kapourellos. Includes 3,000 shares of Common Stock held on the date hereof by Mr. Kapourellos with his spouse as joint tenants with right of survivorship. Includes 27,000 shares of Common Stock issuable upon exercise of options. Does not include any shares of Common Stock issuable upon conversion of any accrued and unpaid dividends in the Series A Preferred Stock.

(9) Includes 5,000 shares of Common Stock issuable upon exercise of options.

(10) Includes 23,533 shares of Common Stock held jointly with Mr. Lurio's spouse, 5,000 shares of Common Stock issuable upon exercise of options and 6,000 shares issuable upon exercise of 1999-A Warrants.

(11) Includes 17,245 shares of Common Stock owned by the Sellers Pension Plan of which Mr. Sellers is a trustee, 4,651 shares of Common Stock owned by Sellers Process Equipment Company of which he is a Director, and 9,929 shares of Common Stock owned by Mr. Seller's wife. Includes 25,500 shares of Common Stock issuable upon exercise of options and 14,000 shares issuable upon exercise of 1999-A Warrants.

(12) Includes 12,000 shares of Common Stock issuable upon conversion of the 12,000 shares of Preferred Stock beneficially owned by Mr. Smith. Includes 20,000 shares of Common Stock issuable upon exercise of options. Includes 8,000 shares of Common Stock issuable upon conversion of the 1996 Warrants held by trusts for the benefit of Mr. Smith's children of which he is a trustee. Does not include any shares of Common Stock issuable upon conversion of any accrued and unpaid dividends on the Series A Preferred Stock.

(13) Includes 22,500 shares of Common Stock issuable to Mr. Van Alen upon exercise of options.

(14) Includes all shares of Common Stock described in footnotes (2) through (13) above.

Preferred Stock

The following table sets forth, as of June 30, 1999 the beneficial ownership of the Preferred Stock by the Company's directors and executive officers, as well as by the Company's directors and executive officers as a group. Except as set forth below, the Company is not aware of any beneficial owner of more than five percent of the Preferred Stock. Except as otherwise indicated, the Company believes that the beneficial owners of the Preferred Stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable.

Name and Address of Beneficial Owner -----	Number of Shares of Preferred Stock Beneficially Owned -----	Percent of Class(1) -----
Edwin R. Boynton 104 Leighton Avenue Bryn Mawr, Pennsylvania 19010	5,500	*
Peter G. Kapourellos 1515 Richard Drive West Chester, Pennsylvania 19380	1,000	*
Henry B. duPont Smith 350 Mill Bank Road Bryn Mawr, Pennsylvania 19010	12,000(2)	1.9%
All Directors and Executive Officers As a Group (11 persons) -----	18,500	2.9%

\*Less than one percent (1%)

(1) There were 640,577 shares of Preferred Stock issued and outstanding as of June 30, 1999.

(2) Includes 2,000 shares of Preferred Stock held by trusts for the benefit of Mr. Smith's children of which he is a trustee.

## Item 12. Certain Relationships and Related Transactions

At June 30, 1999 and 1998, approximately \$84,000 and \$26,000 respectively, of the Company's accounts payable are due to several shareholders for various legal and technical services performed. For the years ended June 30, 1999 and June 30, 1998, the Company incurred approximately \$381,000 and \$340,000 respectively for these services.

In November 1997, Mr. Jensen canceled 436,500 shares of Common Stock owned by him and which had been held in escrow.

In December 1997, the Company issued to each of Joseph Donahue and Phillip Harvey, Vice Presidents of the Company, options to acquire up to 5,000 shares of Common Stock at \$4.50 per share. The options vest at the rate of 1,250 per quarter.

In December 1997, Adele Hepburn, a Director of Public Relations of the Company, loaned the Company the sum of \$50,000 for working capital. The loan was repaid on March 31, 1998 including interest at the rate of six percent (6%) per annum.

In March 1998, the Company extended the expiration date of the following options to purchase shares of Common Stock from June 30, 1998 to the close of business on June 30, 2000: Adele Hepburn - 5,000 options; Peter G. Kapourellos - 10,000 options; William W. Sellers - 10,000 options; William L. Van Alen, Jr. - 10,000 options; and Keith L. Sterling - 10,000 options.

In March 1998, the Company extended the expiration date of all the purchase rights to acquire 15,730 shares of Common Stock at \$10.00 per share from June 30, 1998 to the close of business June 30, 2000.

In April 1998, the Company permanently reduced from \$2.50 to \$1.50 the exercise price of the following options to purchase Common Stock issued to the following Directors and/or executive officers of the Company: Peter G. Kapourellos - 17,000 options; William W. Sellers - 15,500 options; William L. Van Alen, Jr. - 12,500 options; Henry B. duPont Smith - 10,000 options; and Haven Brock Kolls, Jr. - 10,000 options.

In April, 1998, the Company permanently reduced the exercise price of 5,000 of the 10,000 options to purchase shares of Common Stock of the Company owned by Michael Lawlor, an officer of the Company, from \$4.50 per share to \$.50 per share and the exercise price of the remaining 5,000 options was permanently reduced from \$4.50 to \$1.50 per share. The reduced exercise price of the 10,000 options is less than the fair market value of the Common Stock on the effective date of the reduction, and therefore, a charge against earnings has been recorded in the Statement of Operations at June 30, 1998.

In April 1998, the Company permanently reduced from \$4.50 to \$1.50 the exercise price of the following options to purchase shares of Common Stock issued to the following Directors and/or executive officers of the Company: Leland P. Maxwell - 10,000 options; Haven Brock Kolls, Jr. - 10,000 options; and Stephen Herbert - 10,000 options.

In April 1998, the Company authorized the permanent reduction in the exercise price of the options to purchase 20,000 shares of Common Stock of the company owned by Adele Hepburn, an employee of the company, from \$2.50 to \$1.50.

In April 1998, the Company authorized a reduction in the exercise price of 15,730 purchase rights from \$10.00 per share to \$2.50 per share through June 30, 1998. At that time the price reverted back to \$10.00 per share.

In April 1998, the Company authorized a temporary reduction in the exercise price of all of the options to purchase up to 12,100 shares of Common Stock of the Company owned by Edward J. Sullivan, a former officer and employee of the Company, to \$1.50 per share through October 31, 1998. Thereafter, the exercise price shall revert back to the current exercise price.

In April 1998 the Company authorized a permanent reduction from \$4.50 to \$1.50 in the exercise price of 10,000 options to purchase shares of Common Stock owned by Joseph Donahue. Also in April 1998 the Company authorized a permanent reduction from \$4.50 to \$2.00 in the exercise price of 7,500 options to purchase shares of Common Stock owned by Phillip Harvey.

All of the above reductions to the exercise price of \$.50, \$1.00, \$1.50, \$2.00 or \$2.50 per share were to a price which was less than the fair market value of the Common Stock as of the date of the reductions and therefore, a charge against earnings was recorded during fiscal year 1998.

In June and July 1999, the Company issued options to purchase an aggregate of 470,000 shares of Common Stock to its executive officers and an aggregate of 70,000 shares of Common Stock to its directors who were not executive officers. Each option is exercisable at \$2.00 per share of Common Stock. See "Management - Director Compensation and Stock Options" and "Executive Stock Options".

In July 1999, the Company extended the expiration dates until June 30, 2001 of the options to acquire Common Stock held by the following directors, officers, and employees: Adele Hepburn - 77,000 options; H. Brock Kolls - 20,000 options; Henry duPont Smith - 10,000 options; William Sellers - 15,500 options; Peter Kapourellos - 17,000 options; and William Van Alen - 12,500 options. All of the foregoing options would have expired in the first two calendar quarters of the year 2000 or the first calendar quarter of year 2001.

During the fiscal year ended June 30, 1999, the Company paid Lurio & Associates, P.C., of which Mr. Lurio is President, professional fees of approximately \$155,000 for legal services rendered to the Company by such law firm.

In August 1999, the Company issued to Stephen P. Herbert, President of the Company, an aggregate of 25,000 shares of Common Stock. Such Common Stock was issued in exchange for services rendered or to be rendered to the Company by Mr. Herbert. The shares of Common Stock were valued at \$2.00 per share, the closing bid price on the date of the grant. The Company has registered these shares under the Act.

In August 1999, the Company agreed to issue to Leland P. Maxwell, Chief Financial Officer of the Company, an aggregate of 10,500 shares of Common Stock. Such Common Stock was issued in exchange for services rendered or to be rendered to the Company by Mr. Maxwell. The shares of Common Stock were valued at \$2.00 per share, the closing bid price on the date of the grant. The Company has agreed to register these shares under the Act.

In August 1999, the Company agreed issued to Michael Lawlor, Vice President of the Company, an aggregate of 10,000 shares of Common Stock and agreed to issue to him an aggregate of 15,000 additional shares. Such Common Stock was or will be issued in exchange for services to be rendered to the Company by Mr. Lawlor. The shares of Common Stock were valued at \$2.00 per share, the closing bid price on the date of the grant. The Company has registered 10,000 of these shares under the Act and has agreed to register the remaining 15,000 shares under the Act.

In August 1999, the Company also issued to Mr. Lawlor fully vested options to acquire up to 20,000 shares of Common Stock at \$2.00 per share. The options are exercisable at any time within five years following issuance. The Company has agreed to register under the Act the Common Stock underlying the options for resale by Mr. Lawlor.

In August 1999, the Company agreed to issue to Joseph Donahue, Vice President of the Company, an aggregate of 15,000 shares of Common Stock. Such Common Stock will be issued in exchange for services to be rendered to the Company by Mr. Donahue. The shares of Common Stock were valued at \$2.00 per share, the closing bid price on the date of the grant. The Company has agreed to register these shares under the Act.

PART IV

Item 13. Exhibits, Consolidated Financial Statement Schedules and Reports on Form 8-K

- a. Consolidated Financial Statements filed herewith at Item 7 hereof Include balance sheets at June 30, 1999 and 1998 and statements of operations, shareholders' equity, and cash flows, for the years ended June 30, 1999 and 1998. All other schedules for which provision is made in regulation S-B of the Commission are not required under the related instruction or are not applicable and therefore have been omitted.
- b. During the last quarter of the fiscal year ended June 30, 1999, the Company did not file any reports on Form 8-K.
- c. The Exhibits filed as part of, or incorporated by reference into this Form 10-KSB are listed below.

Exhibit Number	Description
3.1	Articles of Incorporation of Company filed on January 16, 1992 (Incorporated by reference to Exhibit 3.1 to Form SB-2 Registration Statement No. 33-70992).
3.1.1	First Amendment to Articles of Incorporation of the Company filed on July 17, 1992 (Incorporated by reference to Exhibit 3.1.1 to Form SB-2 Registration Statement No. 33-70992).
3.1.2	Second Amendment to Articles of Incorporation of the Company filed on July 27, 1992 (Incorporated by reference to Exhibit 3.1.2 to Form SB-2 Registration Statement No. 33-70992).
3.1.3	Third Amendment to Articles of Incorporation of the Company filed on October 5, 1992 (Incorporated by reference to Exhibit 3.1.3 to Form SB-2 Registration Statement No. 33-70992).
3.1.4	Fourth Amendment to Articles of Incorporation of the Company filed on October 18, 1993 (Incorporated by reference to Exhibit 3.1.4 to Form SB-2 Registration Statement No. 33-70992).
3.1.5	Fifth Amendment to Articles of Incorporation of the Company filed on June 7, 1995(Incorporated by Reference to Exhibit 3.1 to Form SB-2 Registration Statement No. 33-98808).
3.1.6	Sixth Amendment to Articles of Incorporation of the Company filed on May 1, 1996 (Incorporated by Reference to Exhibit 3.1.6 to Form SB-2 Registration Statement No. 333-09465).
3.1.7	Seventh Amendment to Articles of Incorporation of the Company filed on March 24, 1997 (Incorporated by reference to Exhibit 3.1.7 to Form SB-2 Registration Statement No. 333-30853).

- 3.1.8 Eighth Amendment to Articles of Incorporation of the company filed on July 5, 1998 (Incorporated by reference to Exhibit 3.1.8 to Form 10-KSB for the fiscal year ended June 30, 1998).
- 3.1.9 Ninth Amendment to Articles of Incorporation of the Company filed on October 1, 1998 (Incorporated by reference to Exhibit 3.1.9 to Form SB-2 Registration Statement No. 333-81591).
- 3.1.10 Tenth Amendment to Articles of Incorporation of the Company filed on April 12, 1999 (Incorporated by reference to Exhibit 3.1.10 to Form SB-2 Registration Statement No. 333-81591).
- 3.1.11 Eleventh Amendment to Articles of Incorporation of the Company filed on June 7, 1999 (Incorporated by reference to Exhibit 3.1.11 to Form SB-2 Registration Statement No. 333-81591).
- 3.2 By-Laws of the Company (Incorporated by reference to Exhibit 3.2 to Form SB-2 Registration Statement No. 33-70992).
- 4.1 Warrant Agreement dated as of June 21, 1995 between the Company and American Stock Transfer and Trust Company (Incorporated by reference to Exhibit 4.1 to Form SB-2 Registration Statement N. 33-98808, filed October 31, 1995).
- 4.2 Form of Warrant Certificate (Incorporated by reference to Exhibit 4.2 to Form SB-2 Registration Statement, No. 33-98808, filed October 31, 1995).
- 4.3 1996 Warrant Agreement dated as of May 1, 1996 between the Company and American Stock Transfer and Trust Company (Incorporated by reference to Exhibit 4.3 to Form SB-2 Registration Statement No. 333-09465).
- 4.4 Form of 1996 Warrant Certificate (Incorporated by reference to Exhibit 4.4 to Form SB-2 Registration Statement No. 333-09465).
- 4.5 Form of 1997 Warrant (Incorporated by reference to Exhibit 4.1 to Form SB-2 Registration Statement No. 333-38593, filed February 4, 1998).
- 4.6 Form of 12% Senior Note (Incorporated by reference to Exhibit 4.6 to Form SB-2 Registration Statement No. 333-81591).
- 4.7 Warrant Certificate of I. W. Miller Group, Inc. (Incorporated by reference to Exhibit 4.7 to Form SB-2 Registration Statement No. 84513).
- 4.8 Warrant Certificate of Harmonic Research, Inc. (Incorporated by reference to Exhibit 4.8 to Form SB-2 Registration Statement No. 333-84513).



- 10.1 Employment and Non-Competition Agreement between the Company and Adele Hepburn dated as of January 1, 1993 (Incorporated by reference to Exhibit 10.7 to Form SB-2 Registration Statement No. 33-70992).
- 10.2 Robert L. Bartlett common Stock Options dated as of July 1, 1993 (incorporated by reference to Exhibit 10.9 to Form SB-2 Registration Statement No. 33- 70992).
- 10.3 Edward J. Sullivan Common Stock Options dated as of July 1, 1993 (Incorporated by reference to Exhibit 10.10 to Form SB-2 Registration Statement No. 33-70992).
- 10.4 Keith L. Sterling Common Stock Options dated July 1, 1993 (Incorporated by reference to Exhibit 10.11 to Form SB-2 Registration Statement No. 33-70992).
- 10.5 Adele Hepburn Common Stock Options dated as of July 1, 1993 (Incorporated by reference to Exhibit 10.12 to Form SB-2 Registration Statement No. 33-70992).
- 10.6 Gregory C. Rollins Common Stock Options dates as of August 23, 1993 (Incorporated by reference to Exhibit 10.13 to Form SB-2 Registration Statement No. 33-70992).
- 10.7 Certificate of Appointment of American Stock Transfer & Trust Company as Transfer Agent and Registrar dated October 8, 1993 (Incorporated by reference to Exhibit 10.23 to Form SB-2 Registration Statement No. 33-70992).
- 10.8 Employment and Non-Competition Agreement between the Company and H. Brock Kolls dated as of May 1, 1994 (Incorporated by reference to Exhibit 10.32 to Form SB-2 Registration Statement No. 33-70992).
- 10.8.1 First Amendment to Employment and Non-Competition Agreement between the Company and H. Brock Kolls dated as of May 1, 1994 (Incorporated by reference to Exhibit 10.13.1 to Form SB-2 Registration Statement No. 333-09465).
- 10.10 Megan N. Cherney Common Stock Options dated as of April 1, 1994 (Incorporated by reference to Exhibit 10.41 to Form SB-2 Registration Statement No. 33-70992).
- 10.11 H. Brock Kolls Common Stock Options dated as of May 1, 1994 (Incorporated by reference to Exhibit 10.42 to Form SB-2 Registration Statement No. 33-70992).

- 10.11.1 H. Brock Kolls Common Stock Options dated as of March 20, 1996 (Incorporated by reference to Exhibit 10.19 to Form SB-2 Registration Statement No. 33-70992)
- 10.12 Barry Slawter Common Stock Options dated as of August 25, 1994 (Incorporated by reference to Exhibit 10.43 to Form SB-2 Registration Statement No. 33-70992).
- 10.13 Employment and Non-Competition Agreement between the Company and Michael Lawlor dated June 7, 1996 (Incorporated by reference to Exhibit 10.28 to Form SB-2 Registration Statement No. 333-09465).
- 10.14 Michael Lawlor Common Stock Option Certificate dated as of June 7, 1996 (Incorporated by reference to Exhibit 10.29 to Form SB-2 Registration Statement No.333-09465).
- 10.15 Employment and Non-Competition Agreement between the Company and Stephen P. Herbert dated April 4, 1996 (Incorporated by reference to Exhibit 10.30 to Form SB-2 Registration Statement No. 333-09465).
- 10.16 Stephen P. Herbert Common Stock Option Certificate dated April 4, 1996 (Incorporated by reference to Exhibit 10.31 to Form SB-2 Registration Statement No. 333-09465).
- 10.17 RAM Group Common Stock Option Certificate dated as of August 22, 1996 (Incorporated by reference to Exhibit 10.34 to Form SB-2 Registration No. 33-98808).
- 10.18 RAM Group Common Stock Option Certificate dated as of November 1, 1996 (Incorporated by reference to Exhibit 10.35 to Form SB-2 Registration No. 33-98808).
- 10.19 Philip A. Harvey Common Stock Option Certificate dated as of November 1, 1996 (Incorporated by reference to Exhibit 10.36 to Form SB-2 Registration No. 33-98808).
- 10.20 Joseph Donahue Common Stock Option Certificate dated as of September 2, 1996 (Incorporated by reference to Exhibit 10.37 to Form SB-2 Registration No. 33-98808).
- 10.21 Employment and Non-Competition Agreement between the Company and Leland P. Maxwell dated February 24, 1997 (Incorporated by reference to Exhibit 10.39 to Form SB-2 Registration No. 33-98808)
- 10.21.1 First Amendment to Employment and Non-competition Agreement between the Company and Leland P. Maxwell dated February 24, 1998.
- 10.22 Leland P. Maxwell Common Stock Option Certificate dated February 24, 1997 (Incorporated by reference to Exhibit 10.40 to Form SB-2 Registration No. 33-98808).

- 10.23 Letter between the Company and GEM Advisers, Inc. signed May 15, 1997 (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on May 22, 1997).
- 10.25 H. Brock Kolls Common Stock Option Certificate dated as of June 9, 1997 (Incorporated by reference to Exhibit 10.43 to Form SB-2 Registration Statement 333-30853).
- 10.26 Stephen Herbert Common Stock Option Certificate dated as of June 9, 1997 (Incorporated by reference to Exhibit 10.44 to Form SB-2 Registration Statement No. 333-30853).
- 10.27 Keith Sterling Common Stock Option Certificate dated as of June 9, 1997 (Incorporated by reference to Exhibit 10.45 to Form SB-2 Registration Statement No. 333-30853).
- 10.28 Michael Feeney Common Stock Option Certificate dated as of June 9, 1997 (Incorporated by reference to Exhibit 10.46 to Form SB-2 Registration Statement No. 333-30853).
- 10.29 Joint Venture Agreement dated September 24, 1997 between the Company and Mail Boxes Etc. (Incorporated by reference to Exhibit 10.47 to Form 10-KSB filed on September 26, 1997).
- 10.30 Employment and Non-competition Agreement between the Company and George R. Jensen, Jr. dated November 20, 1997 (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 26, 1997).
- 10.31 Agreement between the Company and Promus Hotels, Inc. dated May 8, 1997 (incorporated by reference to Exhibit 10.49 to Form SB-2 Registration Statement No. 333-38593, filed on February 4, 1998).
- 10.32 Agreement between the Company and Choice Hotels International, Inc. dated April 24, 1997 (Incorporated by reference to Exhibit 10.50 to Form SB-2 Registration Statement No. 333-38593, filed on February 4, 1998).
- 10.33 Agreement between the Company and PNC Merchant Services dated July 18, 1997 (Incorporated by reference to Exhibit 10.51 to Form SB-2 Registration Statement No. 333-38593, filed on February 4, 1998).
- 10.34 Separation Agreement between the Company and Keith L. Sterling dated April 8, 1998 (Incorporated by reference to Exhibit to Exhibit 10.1 to Form 10-QSB filed May 12, 1998).

- 10.35 Phillip A. Harvey Common Stock Option Certificate dated as of April 22, 1999 (Incorporated by reference to Exhibit 10.35 to Form SB-2 Registration Statement No. 333-81591).
- 10.36 Consulting Agreement between Ronald Trahan and the Company dated November 16, 1998 (incorporated by Reference to Exhibit 28 to Registration Statement No. 333-67503 on Form S-8 filed on November 18, 1998).
- 10.37 Consulting Agreement between Mason Sexton and the Company dated March 10, 1999 (incorporated by reference to Exhibit 28 to Registration Statement No. 333-74807 on Form S-8 filed on March 22, 1999).
- 10.38 Financial Public Relations Agreement between the Company and I. W. Miller Group, Inc. dated August 1, 1999 (Incorporated by reference to Exhibit 10.38 to Form SB-2 Registration Statement No. 333-84513).
- 10.39 Consulting Agreement between Harmonic Research, Inc. and the Company dated August 3, 1999 (Incorporated by reference to Exhibit 10.39 to Form SB-2 Registration Statement No. 333-84513).
- \*\*10.40 Agreement for Wholesale Financing and Addendum for Scheduled Payment Plan with IBM Credit Corporation dated May 6, 1999.
- \*\*27.1 Financial Data Schedule (Electronic Filing Only)

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\*\* -- Filed herewith.

d. Schedules filed herewith include: Financial Data Schedule

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ George R. Jensen, Jr.  
 -----  
 George R. Jensen, Jr., Chairman  
 and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures -----	Title -----	Date -----
/s/ George R. Jensen, Jr. ----- George R. Jensen, Jr.	Chairman of the Board of Directors, Chief Executive Officer (Principal Executive Officer)	September 28, 1999
/s/ Leland P. Maxwell ----- Leland P. Maxwell	Vice President and Chief Financial Officer (Principal Accounting Officer)	September 28, 1999
/s/ William W. Sellers ----- William W. Sellers	Director	September 28, 1999
/s/ Peter G. Kapourelou ----- Peter G. Kapourelou	Director	September 28, 1999
/s/ Stephen P. Herbert ----- Stephen P. Herbert	Director	September 28, 1999
/s/ Douglas M. Lurio ----- Douglas M. Lurio	Director	September 28, 1999
----- Steven Katz	Director	September --, 1999
----- Henry B. duPont Smith	Director	September --, 1999
----- Edwin R. Boynton	Director	September --, 1999

AGREEMENT FOR WHOLESALE FINANCING  
(SECURITY AGREEMENT)

This Agreement for Wholesale Financing - Security Agreement (as amended, supplemented or otherwise modified from time to time, this "Agreement") dated May 6, 1999 is by and between IBM Credit Corporation, a Delaware corporation, with a place of business at 1500 RiverEdge Parkway Atlanta, Georgia 30328 ("IBM Credit") and USA Technologies, Inc., a Pennsylvania corporation, ("Customer").

In the course of Customer's business, Customer acquires products and wants IBM Credit to finance Customer's purchase of such products under the following terms and conditions and IBM Credit is willing to provide such financing under the following terms and conditions and contingent upon IBM Global Services ("IGS") providing Customer with product management and other services pursuant to the IBM Statement of Work or Project Support Services #7J09617 executed by Customer and IGS on 5/14/99.

1. Subject to the terms and conditions set forth in this Agreement to but not including the date that is the earlier of (x) the date on which this Agreement is terminated pursuant to paragraph 15 and (y) the date on which IBM Credit terminates the credit line pursuant to paragraph 15, IBM Credit agrees to extend to Customer a credit line of One Million Five Hundred Thousand Dollars (\$1,500,000.00) ("Credit Line") pursuant to which IBM Credit may make to the Customer from time to time in an aggregate amount at any one time outstanding not to exceed the lesser (1) the Credit Line and (2) the value of the SPP Collateral (as described in the Addendum to Agreement for Wholesale Financing - Scheduled Payment Plan) (the "Addendum").

2. Notwithstanding any other term or provision of this Agreement IBM Credit may, at any time and from time to time, in its sole discretion (x) temporarily increase the amount of the Credit Line above the amount set forth in paragraph 1 of this Agreement and decrease the amount of the Credit Line back to the amount of the Credit Line set forth in paragraph 1 of this Agreement, in each case upon written notice to the Customer and (y) make Advances (as defined in the Addendum) pursuant to this Agreement upon the request of Customer in an aggregate amount at any one time outstanding in excess of the Credit Line. Customer agrees that any decision to finance products will not be binding on IBM Credit until such time as the funds are actually advanced by IBM Credit. IBM Credit may combine all of its advances to make one debt owed by Customer.

3. In the course of Customer's operations, Customer intends to purchase from persons approved in writing by IBM Credit for the purpose of this Agreement (the "Authorized Suppliers") computer hardware and software products manufactured or distributed by or bearing any trademark or trade name of such Authorized Suppliers (the "Approved Inventory"). When IBM Credit advances funds, IBM Credit may send Customer a Statement of Transaction or other statement. If IBM Credit does, Customer will have acknowledged the debt to be an account stated and Customer will have agreed to the terms set forth on such statement unless Customer notifies IBM Credit in writing of any question or objection within seven (7) days after such statement is mailed to Customer.

4. To secure payment of all of the Customer's current and future obligations to IBM Credit whether under this Agreement, any guaranty that Customer now or hereafter executes, or any other agreement between Customer and IBM Credit, whether direct or contingent, Customer grants IBM Credit a security interest in all of customer's inventory and equipment bearing the trademark or trade name of Authorized Suppliers or manufactured or sold by Authorized Suppliers, and all parts thereof, attachments, accessories, accessions, substitutions and/or replacements for all of the foregoing, all rebates, discounts, credits, refunds, and incentive payments relating to the foregoing and all accounts, contract rights, chattel paper, instruments, reserves, documents of title and deposit accounts whether now owned or hereafter acquired and all proceeds thereof. All of the above assets are defined pursuant to the provisions of Article 9 of the Uniform Commercial Code or the Commercial Transactions Act (the "CTA") and



mortgagee clause payable to IBM Credit to the extent of any loss to the Collateral and containing a waiver of all defenses against Customer that is acceptable to IBM Credit. Customer agrees to provide IBM Credit with written evidence of the required insurance coverage and lender loss-payee or mortgagee clause. Customer assigns to IBM Credit all amounts owed to Customer under any insurance policy, and Customer directs any insurance company to make payment directly to IBM Credit to be applied to the unpaid obligations owed IBM Credit. Customer further grants IBM Credit an irrevocable power of attorney to endorse any checks or drafts and sign and file any of the papers, forms and documents required to initiate and settle any insurance claims with respect to the Collateral. If Customer fails to pay any of the above-referenced costs, charges, or insurance premiums, or if Customer fails to insure the Collateral, IBM Credit may, but will not be obligated to, pay such costs, charges and insurance premiums, and the amounts paid will be considered an additional obligation owed by Customer to IBM Credit.

8. IBM Credit has the right to enter upon Customer's premises from time to time, as IBM Credit in its sole discretion may determine for IBM Credit's sole benefit, and all without any advance notice to Customer, to: examine the Collateral; appraise it as security; verify its condition and non-use; verify that all Collateral have been properly accounted for; verify that Customer has complied with all terms and provisions of this Agreement; and assess, examine, and make copies of Customer's books and records. Any collection by IBM Credit of any amounts Customer owes at or during IBM Credit's examination of the Collateral does not relieve customer of its continuing obligation to pay Customer's obligations owed to IBM Credit in accordance with such terms.

9. Customer agrees to immediately pay IBM Credit the full amount of the principal balance owed IBM Credit on each item of Approved Inventory financed by IBM Credit at the time such Approved Inventory is sold, lost, stolen, destroyed, or damaged, whichever occurs first, unless IBM Credit has agreed in writing to provide financing to Customer on other terms. Customer also agrees to provide IBM Credit, upon IBM Credit's request, an inventory report which describes all the Approved Inventory in Customer's possession (excluding any Approved Inventory financed by IBM Credit under the Demonstration and Training Equipment Financing Option). Regardless of the repayment terms set forth in any billing statement, if IBM Credit determines in its reasonable and sole discretion, after conducting an inspection of all of Customer's inventory, that the current outstanding obligations owed by Customer to IBM Credit exceeds the value of the SPP Collateral, Customer agrees to immediately pay to IBM Credit an amount equal to the difference between such outstanding obligations and the value of the SPP Collateral. Customer will make all payments to IBM Credit according to the remit to instructions in the billing statement. Any checks or other instruments delivered to IBM Credit to be applied against Customer's outstanding obligations will constitute conditional payment until the funds represented by such instruments are actually received by IBM Credit. IBM Credit may apply payments to reduce finance charges first and then principal, irrespective of Customer's instructions. Further, IBM Credit may apply principal payments to the oldest (earliest) invoice for the Approved Inventory financed by IBM Credit, or to such Approved Inventory which is sold, lost, stolen, destroyed, or otherwise disposed of. If Customer signs any instrument for any outstanding obligations, it will be evidence of Customer's obligation to pay and will not be payment. Any discount, rebate, bonus, or credit for Approved Inventory granted to Customer by any Authorized Supplier will not, in any way, reduce the obligations Customer owes IBM Credit, until IBM Credit has received payment in good funds.

10. Customer will pay IBM Credit finance charges as set forth in the Schedule of SPP Definitions & Charges attached hereto and as may be agreed to between Customer and IBM Credit from time to time. The period of any financing will begin on the invoice date for the Approved Inventory whether or not IBM Credit advances payment on such date. This period will be included in the calculation of the annual percentage rate of the finance charges. Such finance charges may be applied by IBM Credit to cover any amounts expended for IBM Credit's: appraisal and examination of the Collateral; maintenance of facilities for payment; assistance in support of Customer's retail sales; IBM Credit's commitments to Authorized Suppliers to finance shipments of Approved Inventory to Customer; recording and filing fees; expenses incurred in obtaining additional collateral or security; and any costs and expenses incurred by IBM Credit arising out of the financing IBM Credit extends to Customer. Customer also agrees to pay IBM Credit additional charges which will include: late payment fees at a per annum rate equal to the Prime Rate plus 6.5%; flat charges; charges for receiving NSF checks from Customer; renewal charges; and



any other charges agreed to by Customer and IBM Credit from time to time. For purposes of this Agreement, "Prime Rate" will mean the average of the rates of interest announced by banks which IBM Credit uses in its normal course of business of determining prime rate. Unless Customer hereafter otherwise agrees in writing, the finance charges and additional charges agreed upon will be IBM Credit's applicable finance charges and additional charges for the class of Approved Inventory involved prevailing from time to time at IBM Credit's principal place of business, but in no event greater than the highest rate from time to time permitted by applicable law. If it is determined that amounts received from Customer were in excess of such highest rate, then the amount representing such excess will be considered reductions to the outstanding principal of IBM Credit's advances to Customer. IBM Credit will send Customer, at monthly or other intervals, a statement of all charges due on Customer's account with IBM Credit. Customer will have acknowledged the charges due, as indicated on the statement, to be an account stated, unless Customer objects in writing to IBM Credit within seven (7) days after such statement is mailed to Customer. This statement may be adjusted by IBM Credit at any time to conform to applicable law and this Agreement. IBM Credit shall calculate any free financing period utilizing a methodology that is consistent with the methodologies used for similarly situated customers of IBM Credit. The Customer understands that IBM Credit may not offer, may change or may cease to offer a free financing period for the Customer's purchases of Approved Inventory. If any Authorized Supplier fails to provide payment of a finance charge for Customer, as agreed, Customer will be responsible for and pay to IBM Credit all financing charges billed to Customer's account.

11. Any of the following events will constitute an event of default by Customer under this Agreement: Customer breaches any of the terms, warranties or representations contained in this Agreement or in any other agreements between Customer and IBM Credit or between Customer and any of IBM Credit's affiliates; any guarantor of Customer's obligations to IBM Credit under this Agreement or any other agreements breaches any of the terms, warranties or representations contained in such guaranty or other agreements between such guarantor and IBM Credit; any representation, statement, report or certificate made or delivered by Customer or any of Customer's owners, representatives, employees or agents or by any guarantor to IBM Credit is not true and correct; Customer fails to pay any of the liabilities or obligations owned to IBM Credit or any of IBM Credit's affiliates when due and payable under this Agreement or under any other agreements between Customer and IBM Credit or between Customer and any of IBM Credit's affiliates; Customer abandons the Collateral or any part thereof; Customer or any guarantor becomes in default in the payment of any indebtedness owed to any third party; a judgment issues on any money demand against Customer or any guarantor; an attachment, sale or seizure is issued against Customer or any of the Collateral; any part of the Collateral is seized or taken in execution; the death of the undersigned if the business is operated as a sole proprietorship, or the death of a partner if the business is operated as a partnership, or the death of any guarantor; Customer ceases or suspends Customer's business; Customer or any guarantor makes a general assignment for the benefit of creditors; Customer or any guarantor becomes insolvent or voluntarily or involuntarily becomes subject to the Federal Bankruptcy Code, state insolvency laws or any act for the benefit of creditors; any receiver is appointed for any of Customer's or any guarantor's assets, or any guaranty pertaining to Customer's obligations to IBM Credit is terminated for any reason whatsoever; any guarantor disclaims any obligations under any guaranty; Customer or any guarantor misrepresents its respective financial condition or organizational structure; or IBM Credit determines, in its sole discretion, that the Collateral, any other collateral given to IBM Credit to secure Customer's obligations to IBM Credit, any guarantor's guaranty, or Customer's or any guarantor's net worth has decreased in value, and Customer has been unable, within the time period prescribed by IBM Credit, to either provide IBM Credit with additional collateral in a form and substance satisfactory to IBM Credit or reduce Customer's total obligations by an amount sufficient to satisfy IBM Credit. Following an event of a default:

(a) IBM Credit may, at any time at IBM Credit's election, without notice or demand to Customer do any one or more of the following: declare all or any part of the obligations Customer owes IBM Credit immediately due and payable, together with all court costs and all costs and expenses of IBM Credit's repossession and collection activity, including, but not limited to, all attorney's fees; exercise any or all rights of a secured party under applicable law; cease making any further financial accommodations or extending any additional credit to Customer; and/or exercise any or all rights available at law or in equity. All of IBM Credit's rights and remedies are cumulative.

(b) Customer will segregate, hold and keep the Collateral in trust, in good order and repair, only for IBM Credit's benefit, and Customer will not exhibit, transfer, sell, further encumber, otherwise dispose of or use for any other purpose whatsoever any of the Collateral.

(c) Upon IBM Credit's oral or written demand, Customer will immediately deliver the Collateral to IBM Credit, in good order and repair, at a place specified by IBM Credit, together with all related documents; or IBM Credit may, in its sole discretion and without notice or demand to Customer, take immediate possession of the Collateral, together with all related documents.

(d) Customer waives and releases: any claims and causes of action which Customer may now or ever have against IBM Credit as a direct or indirect result of any possession, repossession, collection or sale by IBM Credit of any of the Collateral and the benefit of all valuation, appraisal and exemption laws. If IBM Credit seeks to take possession of any of the Collateral by court process, Customer irrevocably waives any notice, bonds, surety and security relating thereto required by any statute, court rule or otherwise.

(e) Customer appoints IBM Credit or any person IBM Credit may delegate as Customer's duly authorized Attorney-In-Fact to do, in IBM Credit's sole discretion, any of the following in the event of a default: endorse Customer's name on any notes, checks, drafts or other forms of exchange constituting Collateral or received as payment on any Collateral for deposit in IBM Credit's account; sell, assign, transfer, negotiate, demand, collect, receive, settle, extend or renew any amounts due on any of the Collateral; and exercise any rights Customer has in the Collateral.

If either party brings any action or asserts any claim against the other party which arises out of this Agreement, any other agreement or any of the business dealings between IBM Credit and Customer, the non-prevailing party agrees to pay the prevailing party's costs and expenses including, but not limited to, all attorney's fees. If IBM Credit fails to exercise any of IBM Credit's rights or remedies under this Agreement, such failure will in no way or manner waive any of IBM Credit's rights or remedies as to any past, current or future default.

12. Customer agrees that if IBM Credit conducts a private sale of any Collateral by soliciting bids from ten (10) or more other dealers or distributors in the type of Collateral repossessed by or returned to IBM Credit hereunder, any sale by IBM Credit of such property will be deemed to be a commercially reasonable disposition under the Uniform Commercial Code. IBM Credit agrees that commercially reasonable notice of any public or private sale will be deemed given to Customer if IBM Credit sends Customer a notice of sale at least seven (7) days prior to the date of any public sale or the time after which a private sale will be made. If IBM Credit disposes of any such Collateral other than as herein contemplated, the commercial reasonableness of such sale will be determined in accordance with the provisions of the Uniform Commercial Code as adopted by the state whose laws govern this Agreement.

Customer agrees that IBM Credit does not warrant the Approved Inventory. Customer will pay IBM Credit in full even if the Approved Inventory is defective or fails to conform to any warranties extended by any third party. Customer's obligations to IBM Credit will not be affected by any dispute Customer may have with any third party. Customer will not assert against IBM Credit any claim or defense Customer may have against any third party. Customer will indemnify and hold IBM Credit harmless against any claims or defenses asserted by any buyer of the Approved Inventory by reason of: the condition of any Approved Inventory; any representations made about the Approved Inventory; or for any and all other reasons whatsoever.

13. Customer grants to IBM Credit a power of attorney authorizing any of IBM Credit's representatives to: execute or endorse on Customer's behalf any documents, financing statements and instruments evidencing Customer's obligations to IBM Credit; supply any omitted information and correct errors in any documents or other instruments executed by or for Customer; do any and every act which Customer is obligated to perform under this Agreement; and do any other things necessary to preserve and protect the Collateral and IBM Credit's security interest in the Collateral. Customer further authorizes IBM Credit to

provide to any third party any credit, financial or other information about Customer that is in IBM Credit's possession.

14. Each party may electronically transmit to or receive from the other party certain documents specified in the E-Business Schedule A attached hereto ("E-Documents") via the Internet or electronic data interchange ("EDI"). Any transmission of data which is not an E-Document shall have no force or effect between the parties. EDI transmissions may be transmitted directly or through any third party service provider ("Provider") with which either party may contract. Each party will be liable for the acts or omissions of its Provider while handling E-Documents for such party, provided, that if both parties use the same provider, the originating party will be liable for the acts or omissions of such Provider as to such E-Document. Some information to be made available to Customer will be specific to Customer and will require Customer to register with IBM Credit before access is provided. After IBM Credit has approved the registration submitted by Customer, IBM Credit will provide an ID and password(s) to an individual designated by Customer ("Customer Recipient"). Customer accepts responsibility for the designated individual's distribution of the ID and password(s) within its organization and Customer will take reasonable measures to ensure that passwords are not shared or disclosed to unauthorized individuals. Customer will conduct an annual review of all IDs and passwords to ensure that they are accurate and properly authorized. IBM CREDIT MAY CHANGE OR DISCONTINUE USE OF AN ID OR PASSWORD AT ITS DISCRETION AT ANY TIME. E-Documents will not be deemed to have been properly received, and no E-Document will give rise to any obligation, until accessible to the receiving party at such party's receipt computer at the address specified herein. Upon proper receipt of an E-Document, the receiving party will promptly transmit a functional acknowledgment in return. A functional acknowledgment will constitute conclusive evidence that an E-Document has been properly received. If any transmitted E-Document is received in an unintelligible or garbled form, the receiving party will promptly notify the originating party in a reasonable manner. In the absence of such a notice, the originating party's records of the contents of such E-Document will control.

Each party will use those security procedures which are reasonably sufficient to ensure that all transmissions to E-Documents are authorized and to protect its business records and data from improper access. Any E-Document received pursuant to this paragraph 14 will have the same effect as if the contents of the E-Document had been sent in paper rather than electronic form. The conduct of the parties pursuant to this paragraph 14 will, for all legal purposes, evidence a course of dealing and a course of performance accepted by the parties. The parties agree not to contest the validity or enforceability of E-Documents under the provisions of any applicable law relating to whether certain agreements are to be in writing or signed by the party to be bound thereby. The parties agree, as to any E-Document accompanied by Customer's ID, that IBM Credit can reasonably rely on the fact that such E-Document is properly authorized by Customer. E-Documents, if introduced as evidence on paper in any judicial, arbitration, mediation or administrative proceedings, will be admissible as between the parties to the same extent and under the same conditions as other business records originated and maintained in documentary form. Neither party will contest the admissibility of copies of E-Documents under either the business records exception to the hearsay rule or the best evidence rule on the basis that the E-Documents were not originated or maintained in documentary form.

Neither party will be liable to the other for any special, incidental, exemplary or consequential damages arising from or as a result of any delay, omission or error in the electronic transmission or receipt of any E-Document pursuant to this paragraph 14, even if either party has been advised of the possibility of such damages. In the event Customer requests IBM Credit to effect a withdrawal or debit of funds from an account of Customer, then in no event will IBM Credit be liable for any amount in excess of any amount incorrectly debited, except in the event of IBM Credit's gross negligence or willful misconduct. No party will be liable for any failure to perform its obligations pursuant to this paragraph 14 in connection with any E-Document, where such failure results from any act of God or other cause beyond such party's reasonable control (including, without limitation, any mechanical, electronic or communications failure) which prevents such party from transmitting or receiving E-Documents.

CUSTOMER RECIPIENT for Internet transmissions:

(PLEASE PRINT)

Name of Customer's Designated Central Contact Authorized to Receive IDs and Passwords:

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e-mail Address: lmaxwell@usatech.com

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Phone Number: 610-989-0340

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15. Time is of the essence in this Agreement. This Agreement will be effective from the date of its acceptance at IBM Credit's office. Customer acknowledges receipt of a true copy and waives notice of IBM Credit's acceptance of it. If IBM Credit advances funds under this Agreement, IBM Credit will have accepted it. This Agreement will remain in force until one of the parties gives notice to the other that it is terminated. If Customer terminates this Agreement, IBM Credit may declare all or any part of the obligations Customer owes IBM Credit due and payable immediately. If this Agreement is terminated, Customer will not be relieved from any obligations to IBM Credit arising out of IBM Credit's advances or commitments made before the effective date of termination. IBM Credit's rights under this Agreement and IBM Credit's security interest in present and future Collateral will remain valid and enforceable until all Customer's obligations to IBM Credit are paid in full. This Agreement shall be binding upon and inure to the benefit of IBM Credit and the Customer and their respective successors and assigns; provided, that the Customer shall have no right to assign this Agreement without the prior written consent of IBM Credit. This Agreement will protect and bind IBM Credit's and Customer's respective heirs, representatives, successors and assigns. It can be varied only by a document signed by IBM Credit's and Customer's authorized representatives. If any provision of this Agreement or its application is invalid or unenforceable, the remainder of this Agreement will not be impaired or affected and will remain binding and enforceable. This Agreement is executed with the authority of Customer's Board of Directors, and with shareholder approval, if required by the law, if Customer is a corporation or if Customer is a limited liability company, with the authority of authorized members. All notices IBM Credit sends to Customer will be sufficiently given if mailed or delivered to Customer at its address shown in paragraph 5.

16. The laws of the State of New York will govern this Agreement. Customer agrees that venue for any lawsuit will be in the State or Federal Court within the county, parish, or district where IBM Credit's office, which provides the financial accommodations, is located. Customer hereby waives any right to change the venue of any action.

17. If Customer has previously executed any security agreements relating to the Collateral with IBM Credit, Customer agrees that this Agreement is intended only to amend and supplement such written agreements, and will not be deemed to be a novation or termination of such written agreements. In the event the terms of this Agreement conflict with the terms of any prior security agreement that Customer previously executed with IBM Credit, the terms of this Agreement will control in determining the agreement between Customer and IBM Credit.

18. CUSTOMER WAIVES ALL EXEMPTIONS AND HOMESTEAD LAWS TO THE MAXIMUM EXTENT PERMITTED BY LAW. CUSTOMER WAIVES ANY STATUTORY RIGHT TO NOTICE OR HEARING PRIOR TO IBM CREDIT'S ATTACHMENT, REPOSSESSION OR SEIZURE OF THE GOODS. CUSTOMER FURTHER WAIVES ANY AND ALL RIGHTS OF SETOFF CUSTOMER MAY HAVE AGAINST IBM CREDIT. CUSTOMER AGREES THAT ANY PROCEEDING IN WHICH CUSTOMER, OR IBM CREDIT OR ANY OF IBM CREDIT'S AFFILIATES, OR CUSTOMER'S OR IBM CREDIT'S ASSIGNS ARE PARTIES, AS TO ALL MATTERS AND THINGS ARISING DIRECTLY OR INDIRECTLY OUT OF THIS AGREEMENT, OR THE RELATIONS AMONG THE PARTIES LISTED IN THIS PARAGRAPH WILL BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE WITHOUT A JURY. EACH PARTY TO THIS AGREEMENT HEREBY WAIVES ANY RIGHT TO A JURY TRIAL IN ANY SUCH PROCEEDING.

ATTEST:

Leland P. Maxwell

USA Technologies, Inc.

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Secretary

Customer

Print Name: Leland P. Maxwell  
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By: /s/ George R. Jenson Jr.  
-----

Print Name: George R. Jenson Jr.  
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(CORPORATE SEAL)

Title: Chairman/CEO  
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E-BUSINESS SCHEDULE A ("SCHEDULE A")

CUSTOMER NAME: USA Technologies, Inc.  
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EFFECTIVE DATE OF THIS SCHEDULE A:  
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E-DOCUMENTS AVAILABLE TO SUPPLIERS:

Invoices

Payment Report/Remittance Advisor

E-DOCUMENTS AVAILABLE TO CUSTOMER:

Invoices

Remittance Advisor

Transaction Approval

Billing Statement

Payment Planner

Auto Cash

Statements of Transaction

Common Dispute Form

SECRETARY'S CERTIFICATE OF RESOLUTION

I certify that I am the Secretary and the official custodian of certain records, including the certificate of incorporation, charter, by-laws and minutes of the meeting of the Board of Directors of the corporation named below, and that the following is a true, accurate statement.

"That Customer reviewed its intention to establish a credit facility with IBM Credit Corporation ("IBM Credit") and the several officers, directors and agents of this corporation, or any one or more of them, are hereby authorized and empowered on behalf of this corporation: to obtain financing from IBM Credit in such amounts and on such terms as such officers, directors or agents deem proper; to enter into security and other agreements with IBM Credit relating to the terms upon which financing may be obtained and security to be furnished by this corporation therefor; from time to time to supplement or amend any such agreements; and from time to time to pledge, assign, guaranty, mortgage, grant security interest in and, otherwise transfer to IBM Credit as collateral security for any obligations of this corporation to IBM Credit and its affiliated companies, whenever and however arising, any assets of this corporation, whether now owned or hereafter acquired; hereby ratifying, approving and confirming all that any of said officers, directors or agents have done or may do in the premises."

IN WITNESS WHEREOF, I have executed and affixed the seal of the corporation on the date stated below.

Dated: May 6, 1999

Leland P. Maxwell

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Secretary

USA Technologies, Inc.

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Corporate Name

ADDENDUM TO AGREEMENT FOR WHOLESALE FINANCING  
(SCHEDULED PAYMENT PLAN)

This Addendum is hereby made to the Agreement for Wholesale Financing (as supplemented by this Addendum and as amended, restated, supplemented or otherwise modified from time to time, hereinafter referred to as the "Agreement") executed on the 6th day of May, 1999, between IBM Credit Corporation ("IBM Credit") AND USA Technologies, Inc. ("Customer").

1. The following provision is hereby incorporated into the Agreement as if fully set forth therein:

SCHEDULED PAYMENT PLAN

IBM Credit may, from time to time at its discretion, extend financing to Customer under this Agreement pursuant to the terms of the Scheduled Payment Plan (hereinafter referred to as the "SPP") and its two optional plans; the SPP/International Business Machines Corporation Plan ("SPP/IBM Plan") and the SPP/IBM Extension Plan ("SPP/IBM-E Plan") each as described in the Schedule of SPP Definitions & Charges (the "Schedule") attached hereto and incorporated herein. The financing to be extended to Customer will be based on Approved Inventory and Accounts, both as defined in the attached Schedule (Accounts and Approved Inventory will hereinafter be referred to as "SPP Collateral"). SPP financing will be provided to Customer by IBM Credit under this Agreement pursuant to the following terms and conditions:

A. IBM Credit may in its sole discretion from time to time determine the amount of financing which it elects to extend to Customer as set forth in paragraph 1 of the Agreement;

B. Customer will pay to IBM Credit or cause IBM Credit to be paid by IBM, as defined in the Schedule, all finance charges and fees each (as described in the attached Schedule) which are due in connection with SPP (the "SPP Charges"). IBM Credit will notify Customer from time to time of the SPP Charges applicable to financing extended to Customer under SPP by sending Customer a revised Schedule. Customer agrees that IBM Credit may from time to time, upon sixty (60) days written notice, increase or decrease the SPP Charges and/or eliminate or add SPP Charges applicable to any financing IBM Credit extends to Customer under SPP. If Customer requests financing from IBM Credit after the date Customer has received any such revised Schedule such request will constitute Customer's acceptance of and agreement to such new SPP Charges and such revised Schedule will be incorporated into and made a part of this Agreement as of the effective date specified on revised Schedule.

C. IBM Credit may, in its sole discretion, apply, in whole or in part, the proceeds of any Collateral to any amount which customer owes to IBM Credit, including any amounts Customer owes to IBM Credit under this Agreement, the SPP or any other financing programs.

D. Customer will, as requested by IBM Credit from time to time, provide to IBM Credit a collateral report ("SPP Collateral Report"), the requirements of which will be set forth by IBM Credit from time to time, and which will include, but not be limited to, a summary of Customer's Approved Inventory, Eligible Accounts (as defined in paragraph G of this Addendum), total qualifying collateral value, total outstanding indebtedness and any Shortfall Amount (as hereinafter defined).

In addition, if requested by IBM Credit Customer will submit the following reports which will be included as attachments to each SPP Collateral Report:

a) Accounts Aging Report which describes the amounts and aging of Customer's accounts as of the date of the report;



b) Inventory Report which describes all of the Approved Inventory in Customer's possession as of the date of the report by quantity, type, model, supplier's invoice price to Customer (net of applicable credits), and the total number of each model times the invoice price of all Approved Inventory;

c) Accounts Payable Report which identifies the amounts and aging of all of Customer's accounts payable; and

d) Additional SPP Collateral Report which identifies any other collateral which may be required by IBM Credit.

On or prior to the date this Addendum is executed by IBM Credit, and once each quarter thereafter, Customer will also submit to IBM Credit the name, address and phone number of each of Customer's account debtor's primary contacts for each account on the Accounts Aging Report.

E. Notwithstanding the scheduled repayment terms of the SPP, if the current outstanding indebtedness (excluding the outstanding indebtedness owed to IBM Credit pursuant to the terms of the Addendum to Agreement for Wholesale Financing - Large Sale Financing Option) owed by Customer to IBM Credit exceeds the sum of: (i) an amount equal to one hundred percent (100%) of the aggregate invoice price to Customer (net of any applicable credits) of the Approved Inventory in Customer's or IBM's invoice price to Customer (net of any applicable credits) of the Approved Inventory in Customer's or IBM's possession; plus, (ii) an amount equal to eighty percent (80%) of the sum of Eligible Accounts; plus (iii) in IBM Credit's sole and absolute discretion, the value which IBM Credit may place on any other collateral provided to IBM Credit (such excess, the "Shortfall Amount"), Customer will immediately pay to IBM Credit an amount equal to the Shortfall Amount.

F. IBM Credit will charge Customer and Customer agrees to pay a fee ("Shortfall Transaction Fee") for each occurrence of a Shortfall Amount unless Customer has, within two business days of occurrence of such Shortfall Amount (the "Shortfall Amount Due Date"), paid IBM Credit the amount of such Shortfall Amount. Shortfall Transaction Fees are calculated by multiplying the Shortfall Amount times 0.30%. In addition to the Shortfall Transaction Fee(s), for each unpaid Shortfall Amount, there will be a charge equal to Prime Rate plus 6.50% on the ADB beginning on the applicable Shortfall Amount Due Date to and including the date IBM Credit receives payment thereof.

G. IBM Credit will have the sole right to determine which of Customer's Accounts are eligible ("Eligible Accounts") for purposes of providing financing hereunder and, without limiting IBM Credit's discretion in that regard, and unless waived by IBM Credit, the following Accounts will be deemed ineligible:

a) Accounts which remain unpaid after ninety (90) days from the date of invoice, provided, however, with respect to IBM Accounts, as defined in the Schedule, such IBM Accounts may be unpaid up to one hundred twenty (120) days from the date of invoice;

b) Accounts with respect to which the account debtor is a parent, subsidiary or affiliate of Customer's company, or is related to Customer, or has common shareholders, officers or directors with Customer;

c) Accounts with respect to which (i) the account debtor (other than a federal government account debtor) is not a commercial or institutional entity or (ii) account debtor is not a resident of the United States;

d) Accounts with respect to which Customer is or may become liable to the account debtor thereof for goods sold or services rendered by such account debtor to Customer;

e) Accounts which represent goods purchased for a personal, family or household purpose;

f) Accounts which represent goods that have been used for demonstration purposes or loaned by Customer to another party;

g) Accounts which are progress payment accounts or contra accounts;

h) Accounts which represent goods that have been refused or returned to Customer for any reason whatsoever;

i) Accounts with respect to which IBM Credit does not have a first priority perfected security interest;

j) Accounts arising from the sale of Approved Inventory financed pursuant to the terms of the Addendum to Agreement for Wholesale Financing - Large Sale Financing Option or any of IBM Credit's other financing options or plans; and

k) Any and all other Accounts which IBM Credit upon prior notice deems in its reasonable discretion to be ineligible.

H. IBM Credit may, in its name or Customer's name, at any time and from time to time verify with account debtors the validity, amount or any other matter relating to any Accounts by mail, telephone or by other means as agreed to by the parties.

I. Customer will provide its year-end financial statements to IBM Credit no later than ninety (90) days after the close of the fiscal year and, if requested by IBM Credit, Customer will promptly provide its financial statements to IBM Credit after each fiscal quarter.

J. If requested by IBM Credit, Customer will obtain a subordination agreement, in form and substance satisfactory to IBM Credit, from any of Customer's creditors to provide IBM Credit a first priority security interest in all of Customer's products and accounts to be used as SPP Collateral and all proceeds thereof.

K. IBM Credit may, in its sole discretion, prior to or after a default, notify account debtors, other than account debtors whose Accounts are IBM Accounts, to make payments in respect to Customer's Accounts directly to IBM Credit. Upon IBM Credit's request, Customer will execute and delivery such further instruments and documents and take such further action as IBM Credit may request to preserve or obtain the full benefits of IBM Credit's security interest in the Collateral.

L. Customer represents and covenants that it has authorized IBM to pay IBM Credit directly for Approved Inventory financed by IBM Credit sold to account debtors whose Account are IBM Accounts. Customer acknowledges and agrees that payments are received by IBM Credit from IBM are to be applied to Advances (as hereinafter defined in the Schedule) owed by Customer to IBM Credit. Customer agrees that IBM Credit may apply payments to reduce finance charges first and then principal. Further, IBM Credit may apply such payments to the oldest (earliest) invoice for Approved Inventory financed by IBM Credit.

M. Customer hereby irrevocably appoints IBM Credit, with full power of substitution, as its true and lawful attorney-in-fact with full power, in good faith and in compliance with commercially reasonable standards, in IBM Credit's discretion, to: (a) sign Customer's name on any document or instrument that IBM Credit deems necessary or appropriate to perfect and maintain perfected any security interest or claim in the Collateral contemplated under the Agreement; (b) endorse Customer's name upon any of the items of payment of proceeds and deposit the same in IBM Credit's account for application to Customer's obligations; and, with respect to clauses (c) through (n), upon the occurrence and during the continuance of a default pursuant to the terms of the Agreement; (c) demand payment, enforce payment and otherwise exercise all of Customer's rights and remedies with respect to collection of any accounts; (d) settle, adjust, compromise, extend or renew any accounts; (e) settle, adjust or compromise any legal proceedings brought to collect any accounts; (f) sell or assign any accounts upon such terms, for such amounts and at such time or times as IBM Credit may deem advisable; (g) discharge and release any accounts; (h) prepare, file and sign Customer's name on any proof of claim in bankruptcy, or similar document against any account debtor; (i) prepare, file and sign Customer's name on any notice of lien, claim of mechanics

lien, assignment or satisfaction of lien or mechanics lien, or similar document in connection with any accounts; (j) endorse Customer's name upon any chattel paper, document, instrument, invoice, freight bill, bill of lading or similar document or agreement relating to any SPP Collateral pertaining thereto; (k) sign Customer's name to requests for verification of accounts and notices thereof to account debtors; (l) sign Customer's name on any document or instrument that IBM Credit may deem necessary or appropriate to enforce any and all remedies IBM Credit may have under the Agreement, at law or otherwise; (m) make, settle and adjust claims under any insurance policies with respect to the SPP Collateral and endorse Customer's name on any check, draft, instrument or other item of payment of the proceeds of such insurance policies with respect to the SPP Collateral; and (n) take control in any manner of any item of payment or proceeds and for such purpose to notify the postal authorities to change the address for delivery of mail addressed to Customer to such address as IBM Credit may request.

N. With respect to each of the Accounts used as SPP Collateral, Customer warrants and represents to IBM Credit that: (a) the Accounts are genuine, in all respects what they purport to be and are not evidenced by a judgment or promissory note or similar instrument or agreement; (b) the Accounts represent undisputed bona fide transactions completed in accordance with the terms and conditions contained in the documents, contracts, agreements, papers and writings giving rise to or related to the Accounts ("Documents"); (c) the goods sold (or services rendered) which resulted in the creation of the Accounts have been delivered or rendered to and accepted by the account debtor; (d) the amounts owed with respect to the Accounts as shown on Customer's records are absolutely owing to Customer and are not contingent for any reason; (e) there are no setoffs, counterclaims or disputes existing or asserted with respect to any of the Accounts, and Customer has not made any agreement with any account debtor for any deduction or discount of any sums payable thereunder except regular discounts allowed by Customer in the ordinary course of business for prompt payment; (f) there are no facts, events or occurrences which in any way impair the validity or enforcement of any of the Accounts or tend to reduce the amount payable thereunder from the amount thereof as shown on Customer's records; (g) all account debtors thereon have the ostensible authority to contract; (h) none of the goods sold or transferred or the services furnished giving rise to any of the Accounts are subject to any lien, claim, encumbrances or security interest which will be superior to IBM Credit's security interest; (i) there are no proceedings or actions known to Customer which are threatened or pending against any account debtor of any of the Accounts and which might result in any material adverse change in the account debtor's financial condition; (j) Customer is the owner of all of the Accounts; (k) Customer has good right, title and authority to sell, assign and transfer all of the Accounts to IBM Credit; and (l) IBM Credit has a perfected, first-priority security interest in and to all of the Accounts, and all proceeds therefrom.

O. IBM Credit has the right and is hereby authorized to enter upon Customer's premises from time to time, at IBM Credit's sole discretion, and all without notice to Customer, to: examine and make copies of Customer's books, records and files which in any way relate to the Accounts or Approved Inventory; appraise the Accounts or Approved Inventory as security; verify that all of the Accounts and Approved Inventory have been properly accounted for, and verify that customer has complied with all terms and provisions of this Agreement.

2. Customer hereby expressly agrees to indemnify, defend and hold IBM Credit harmless from and against any and all loss and/or liability whatsoever relating, directly or indirectly to or arising out of the Agreement.

3. If there is a conflict between the terms of this Addendum and those of the Agreement, the terms of this Addendum will prevail with respect to the financing provided under the terms of the SPP. "Collateral" shall mean "Goods" or "Collateral" as such terms may be defined in the Agreement.

4. This Addendum may be modified by IBM Credit upon written notice to Customer. This Addendum will remain in force until one party gives written notice to the other that it is terminated, provided however, that Customer's obligations hereunder and IBM Credit's right hereunder will not be terminated until all of the Customer's obligations have been satisfied in full.

5. Except as herein provided, the other terms of the Agreement will remain unchanged, and will continue to be in full force and effect.

6. IBM CREDIT SHALL NOT HAVE ANY LIABILITY WITH RESPECT TO ANY SPECIAL, INDIRECT OR CONSEQUENTIAL DAMAGES SUFFERED BY CUSTOMER IN CONNECTION WITH THIS AGREEMENT, ANY OTHER AGREEMENT OR ANY CLAIMS IN ANY MANNER RELATED THERETO, NOR SHALL IBM CREDIT HAVE ANY LIABILITY TO CUSTOMER OR ANY OTHER PERSON FOR ANY ACTION TAKEN OR OMITTED TO BE TAKEN BY IBM CREDIT OR THEM HEREUNDER, EXCEPT FOR IBM CREDIT'S OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

7. CUSTOMER AGREES THAT THE VALIDITY, INTERPRETATION AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS (WITHOUT GIVING EFFECT TO CONFLICT OF LAW PROVISIONS) GOVERNING CUSTOMER'S AGREEMENT FOR WHOLESALE FINANCING.

8. CUSTOMER AND IBM CREDIT HEREBY IRREVOCABLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING (INCLUDING ANY COUNTERCLAIM) OF ANY TYPE IN WHICH CUSTOMER AND IBM CREDIT ARE PARTIES AS TO ALL MATTERS ARISING DIRECTLY OR INDIRECTLY OUT OF THIS AGREEMENT OR ANY DOCUMENT, INSTRUMENT OR AGREEMENT EXECUTED IN CONNECTION HEREWITH.

IN WITNESS WHEREOF, Customer has caused a duly authorized representative to execute this Addendum on this 6th day of May, 1999.

USA Technologies, Inc.

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

Print Name: George R. Jensen, Jr.

Title: Chairman/CEO

ATTEST:

/s/ Leland P. Maxwell

(Secretary)

IBM CREDIT CORPORATION

By: /s/ Gary Sanchez

Print Name: Gary Sanchez

Title: Region Credit Manager

SCHEDULE OF  
SPP DEFINITIONS & CHARGES

The effective date of this Schedule of SPP Definitions & Charges is May 6, 1999

Customer: USA Technologies, Inc.  
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1.0 SPP Definitions

"Accounts" means all now existing and hereafter created Accounts arising from the sale or licensing of inventory, software and/or performance of services by Customer, including any interest, finance charges and other amounts payable with respect thereto, provided, however, IBM Credit has a first priority security interest in such Accounts.

"Advance" means any advance of funds made or committed to be made by IBM Credit for the account of Customer to an Authorized Supplier in respect of an invoice delivered or to be delivered by such Authorized Supplier to IBM Credit describing Approved Inventory purchased by Customer.

"Approved Inventory" means computer hardware and software products sold or distributed by any company, approved by IBM Credit in writing to receive financing pursuant to the Agreement (the "Authorized Suppliers"), provided, however, IBM Credit has a first priority security interest in such products and such products are new and in manufacturer sealed boxes.

"Average Daily Balance" ("ADB") means the sum of the principal of outstanding Advances unpaid after the Free Financing Period, if any, as of each day during a calendar month divided by the number of days in the calendar month.

"Date of Note" means the invoice date or ship date specified by Authorized Supplier in respect of Customer's Approved Inventory purchases financed by IBM Credit pursuant to SPP.

"Delinquency Fee" means the fee set forth in Section 2.3 of this Schedule which Customer will pay if an Advance is not paid by Customer or by IBM on Customer's behalf to IBM Credit on the applicable Payment Due Date for each Advance.

"Delinquency Rate" means the rate set forth in Section 2.4 of this Schedule which Customer will pay if an Advance is not paid by Customer or by IBM on behalf of Customer to IBM Credit on the applicable Payment Due Date for each Advance.

"Free Financing Period" means for each Advance made by IBM Credit pursuant to SPP, the period, if any, commencing on the Date of Note, in which IBM Credit does not charge Customer a financing charge. IBM Credit will calculate the Free Financing Period utilizing a methodology that is consistent with the methodologies used for IBM Credit's similarly situated customers. Customer understands that IBM Credit may not offer, may change or may cease to offer a Free Financing Period for Customer's purchases of Approved Inventory.

"IBM" means International Business Machines Corporation, IBM Global Services Division.

"IBM Accounts" means Accounts arising from the sale of goods and services to account debtors whose Accounts will be paid by IBM pursuant to the IBM Statement of Work for Project Support Services executed by Customer and IBM (reference IBM Customer Agreement Number 7J09617).  
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"Minolta" means Minolta Corporation.

"PIN" means Professional Installation Network, Inc.

"Prime Rate" means, as of the date of determination, the average of the rates of interest announced by Citibank, N.A., Chase Manhattan Bank, and Bank of America National Trust & Savings Association (or any other bank which IBM Credit uses in its normal course of business of determining Prime Rate).

## 2.0 SPP Plans & Charges:

The following is a description of each of the SPP options and the fees and rates that apply to these plans:

2.1 SPP/IBM Plan. The plan whereby IBM Credit makes a loan or extends credit to or on behalf of Customer to extend the repayment terms of an Advance for Approved Inventory ordered by Customer from Authorized Supplier sold to an account debtor whose Account will be paid by IBM ("SPP/IBM Plan Advance"). Such SPP/IBM Plan Advance will be due and payable on the date set forth in the statement of transaction or billing statement applicable to such SPP/IBM Plan Advance, which date will be the day that is the earlier of (i) one hundred twenty (120) days following the Date of Note of such SPP/IBM Plan Advance or (ii) when payment is received from Customer's customer, or such other number of days as IBM Credit may notify Customer from time to time, (the "SPP/IBM Plan Payment Due Date").

(A) SPP/IBM Plan Advance Fee: For each SPP/IBM Plan Advance made by IBM Credit to an Authorized Supplier where there is a Free Financing Period associated with such an SPP/IBM Plan Advance there will be a charge equal to 0.50% of the invoice amount on the day after the Free Financing Period ends. For each SPP/IBM Plan Advance made to Authorized Suppliers where there is no Free Financing Period, there will be a charge equal to 0.50% of the invoice amount on the Date of Note. All such SPP/IBM Plan Advance Fees will be due and payable on the date set forth on the billing statement IBM Credit sends to Customer at the end of each month.

(B) SPP/IBM Rate: For each SPP/IBM Plan Advance made by IBM Credit to an Authorized Supplier where there is a Free Financing Period there will be a charge equal to Prime Rate plus 2.25% on the ADB beginning on the day following the end of the Free Financing Period to and including the one hundred twentieth (120th) day following the Date of Note. For each SPP/IBM Plan Advance made by IBM Credit to Authorized Suppliers where there is no Free Financing Period there will be a charge equal to Prime Rate plus 2.25% on the ADB beginning on the Date of Note.

2.2 SPP/IBM-E Plan. The plan by which IBM Credit makes a loan or extends credit to or on behalf of Customer to extend the repayment terms of an SPP/IBM Plan Advance for Approved Inventory in the possession of IBM organization or to be placed under the terms of an IBM Credit Corporation or LeaseSource, Inc. or other IBM Credit approved lessor leasing agreement ("SPP/IBM-E Advance"). Such SPP/IBM-E Advance will be due and payable and payable on the date set forth in the statement of transaction or billing statement applicable to such SPP/IBM-E Advance, which date will be the earlier of (i) sixty (60) days following the Date of Note of such SPP/IBM-E Advance or (ii) when payment is received from Customer's customer, or such other number of days as IBM Credit may notify Customer from time to time, (the "SPP/IBM-E Payment Due Date").

(A) SPP/IBM-E Advance Fee: For each SPP/IBM-E Advance there will be a charge each month equal to 0.30% of the outstanding invoice amount on the Date of Note. All such SPP/IBM-E Advance Fees will be due and payable on the date set forth on the billing statement IBM Credit sends to Customer at the end of each month; and

(B) SPP/IBM-E Rate: Prime Rate plus 2.25% on the ADB beginning on the Date of Note to and including the SPP/IBM-E Payment Due Date.

2.3 Delinquency Fee: For each Advance unpaid on its applicable Payment Due Date there will be a charge equal to 0.30% of the total amount of such Advances outstanding at the end of each billing period.

2.4 Delinquency Rate: For each unpaid Advance there will be a charge equal to Prime Rate plus 6.50% on the ADB beginning on the applicable Payment Due Date to and including the date IBM Credit receives payment thereof.

### 3.0 Additional Terms Relating to Advances/Charges

(A) SPP Charges will be calculated by multiplying the applicable Delinquency Rate or SPP Rate set forth in Section 2.0 of this Schedule by Customer's applicable ADB. The Delinquency Rate and the various SPP Charges provided for in this Delinquency Rate and the various SPP Charges provided for in this Addendum are each computed on the basis of an actual day, 360 day year.

(B) If it is determined that the finance charges for any Advance paid by Customer to IBM Credit were in excess of the highest rate allowed by law, then the amount representing such excess shall be considered reductions to the principal amount of Advances.





Financing Statement  
Parties

-----  
Debtor name (last name first if individual) and mailing address:

USA Technologies, Inc.  
200 Plant Avenue  
Wayne, PA 19087

1

-----  
Debtor name (last name first if individual) and mailing address:

1a

-----  
Debtor name (last name first if individual) and mailing address:

1b

-----  
Secured Party(ies) name(s) (last name first if individual) and address for  
security interest information:

IBM Credit Corporation  
P.O. Box 105061  
Atlanta, GA 30348-9990

2

-----  
Assignee(s) of Secured Party name(s) (last name first if individual) and address  
for security interest information:

2a

-----  
Special Types of Parties (check if applicable):

The terms "Debtor" and "Secured Party" mean "Lessee" and "Lessor,"  
respectively.

The terms "Debtor" and "Secured Party" mean "Consignee" and  
"Consignor," respectively.

Debtor is a Transmitting Utility.

3

-----  
SECURED PARTY SIGNATURE(S)

-----  
This statement is filed with only the Secured Party's signature to perfect a  
security interest in collateral (check applicable box(es)) -

a.  acquired after a change of name, identity or corporate structure of the  
Debtor.

b.  as to which the filing has lapsed.

c. already subject to a security interest in another county in Pennsylvania-  
 when the collateral was moved to this county.  
 when the Debtor's residence or place of business was moved to  
this county.

d.  already subject to a security interest in another jurisdiction-  
 when the collateral was moved to Pennsylvania.  
 when the Debtor's location was moved to Pennsylvania

e.  which is proceeds of the collateral described in block 9, in which a  
security interest was previously perfected (also describe proceeds in  
block 9, if purchased with cash proceeds and not adequately described on  
the original financing statement).

Secured Party Signature(s)  
(required only if box(es) is checked above:

IBM Credit Corporation

-----  
Phyllis Tallant  
-----  
-----

4

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STANDARD FORM - FORM UCC-1 (7-89)

Approved by Secretary of Commonwealth of Pennsylvania

EXHIBIT A

Supplier

- - - - -

Access Graphics, Inc. (ACC)  
 Acer America, Inc. (ACE)  
 Admor Memory LTD (ADM)  
 Advanced Logic Research, Inc. (ALR)  
 Advantage Memory Corporation (ADV)  
 Agama Systems (AGA)  
 Almo Corporation (ALM)  
 Alltel Supply, Inc. (ALL)  
 Alternative Technology, Inc. (ATI)  
 Amax Engineering Corporation (AMX)  
 Ameridata, Inc. (GEITS) (ADA)  
 Ameriquet Technologies, Inc. (AQS)  
 Anntex, Inc. (ANI)  
 Applied Technology Ventures, Inc. (ATV)  
 Arrow Electronics, Inc. (ARR)  
 ASI Corporation, Inc. (ASI)  
 AST Research, Inc. (ASR)  
 ATEC Group, Inc.  
 Attronica Computer, Inc. (ATR)  
 Avnet, Inc. (AVN)  
 Bay Networks, Inc. (WEL)  
 BDI Distributors, Inc. (BDI)  
 Bell Microproducts, Inc. (BMI)  
 Bustek, Inc. (BST)  
 Brother International Corporation (BRO)  
 Busiess Partner Solutions, Inc (BPS)  
 Cabletron Systems, Inc (CBL)

Supplier

- - - - -

Canon Computer Systems, Inc. (CAN)  
 Centron Electronics, Inc. (CEN)  
 Citizen America Corporation (CIT)  
 CMS Enhancements, Inc. (CMS)  
 Combined Technology Computer Corp. (CTE)  
 Compaq Computer Corporation (CPQ)  
 Compucom Systems, Inc. (CMP)  
 Computer Graphics Technology, Inc. (CGT)  
 Comtech Micro System, Inc. (CTH)  
 Continental Technology, Inc. (CTI)  
 Comstor Corporation (CSR)  
 Cranel, Inc. (CRA)  
 Creative Labs (CIB)  
 CTX International, Inc. (CTX)  
 Data 1 (DAI)  
 Data Security Services Corp. (DTS)  
 Datalink Corporation (DLC)  
 Data Storage Marketing (DSM)  
 Decision Support Systems, Inc. (DSF)  
 Dell Marketing (DEL)  
 D & H Distributing Company (DHD)  
 Diamond Flower Instrument (DFI)  
 Diamond Multi Media Systems, Inc. (DMS)  
 Dickens Data Systems, Inc. - Atlanta (DDG)  
 Dickens Data Systems, Inc. - Dallas (DDT)  
 Digi International, Inc. (DGB)  
 Digital Equipment Corp. (DEC)

## Supplier

- - - - -

Dolch American Instruments, Inc. (DOL)  
 DTK Technology, Inc. (DTK)  
 En Pointe Technologies, Inc. (EDT)  
 EMJ America, Inc. (EMJ)  
 Epson America, Inc. (EPS)  
 Equus Computer Systems, Inc. (EDU)  
 First Source International, Inc. (FSI)  
 FMG - Atlanta, Inc. (FMA)  
 FMG - New Jersey, Inc. (FMJ)  
 Fountain Technology, Inc. (FNT)  
 Fujitsu Computer Products of America (FUJ)  
 Gates/Arrow Distributing (GAT)  
 Gateway 2000 Corporation (GWT)  
 Government Technology Services, Inc. (GTS)  
 Graphics Technologies, Inc. (GTI)  
 Greenleaf Distribution, Inc. (GLF)  
 H. Co. Computer Products, Inc. (HCO)  
 Hartford Computer Group, Inc. (HAR)  
 HB Corporation Group (HBC)  
 Hitachi PC Corporation (HIT)  
 Hotan Corporation, Inc. (HTN)  
 IBM Corporation (MO)  
 IBM Printing Systems Company (PRN)  
 IBM Personal Systems Group (PCC)  
 IM&R Broker Sales (RBS)  
 IM&R Retail Sales (RRS)  
 InaCom Corporation (ICM)  
 Ingram Alliance (Div. of Ingram Micro)(IAL)  
 Ingram Micro, Inc. (ING)  
 International Computer Graphics, Inc. (ICG)  
 Inteva Technologies, Inc. (ITI)  
 Jatton Corporation (JAT)  
 Jones Business Systems, Inc. (JNS)  
 JVC Americas Corporation (JVC)  
 Kenitec Computer & Technologies, Inc. (KCT)  
 Kingston Technology Corp. (KTC)  
 Kyocera Electronics, Inc. (KYO)  
 Lexmark International, Inc. (LEX)

## Supplier

- - - - -

Liuski, Inc. (LIU)  
 Logicare Inc. (LGC)  
 MA Laboratories, Inc. (MAL)  
 Matrix Marketing, Inc. (MAT)  
 Max Group Corporation (MGC)  
 MCBA Systems, Inc. (MBA)  
 McBride & Associates, Inc. (MCB)  
 Megatron Computer Systems, Inc. (MCS)  
 Golden Ram (Memory Products)(MPM)  
 MemoSun, Inc. (MSN)  
 Merisel, Inc. (MER)  
 MFP Technology Services, Inc. (MFP)  
 MGV International, Inc. (MGV)  
 Microage Computer Centers, Inc. (MIC)  
 Micron Electronics, Inc. (MCN)  
 Microland Electronics Corp (MLD)  
 MicroNet Technology (MNT)  
 Microretailing, Inc. (MRI)  
 Micro Distribution Center, Inc. (MDC)  
 Micro Distribution Center of Kansas (MDK)  
 Micro Equipment Corporation, Inc (MEC)  
 Micro Supply, Inc. (MIS)  
 Micro Technology Concepts (MTC)  
 MicroTouch Systems(MTH)  
 Millenium Electronics, Inc (MLE)  
 Mitsubishi Electronics America, Inc. (MIT)  
 Mitsumi Electronics Corporation (MIM)  
 Multi-Tech Systems, Inc. (MTS)  
 NCR Corporation (NCR)  
 NEC Computer System Division (NCS)  
 NEC Technologies, Inc (NEC)  
 NEC Technologies, Inc. (NEC)(for Storage Products and  
 Advance Media Divisions Only)  
 Nevcor Technologies Group, Inc (AMA)  
 New Wave Technologies, Inc (NWA)  
 New World Technologies, Inc (NWT)  
 Nexar Technologies, Inc. (NXR)  
 Nycom Technologies Distribution, Inc (NTD)

## Supplier

- - - - -

Opal Technologies, Inc. (OPL)  
 Optima Technology Corporation (OPT)  
 Orientec (ORI)  
 Panasonic Communications and Systems Co (PCS)  
 Panasonic Industrial Company (PAN)  
 Panasonic Personal Computer Company (PSC)  
 P & A Technology, Inc. (PAT)  
 PC Warehouse Investment, Inc. (PCW)  
 PC Wholesale (PWD)  
 Philips Components (PCO)  
 Philips Consumer Electronics, Inc. (PCE)  
 Pioneer-Standard Electronics, Inc. (PSE)  
 Pionex Technologies, Inc. (POI)  
 Powerstar, Inc. (POW)  
 Premio Computer, Inc. (CSI)  
 Procom Technology, Inc. (PTI)  
 Pulsar Data Systems (PUL)  
 QMS, Inc. (QMS)  
 Quantum Corporation (QUA)  
 Riodan and Ross, Inc. (RAR)  
 RMOA-IT (RMO)  
 Sampo Technology, Inc. (STI)  
 Samsung America, Inc. (SSA)  
 Samsung Electronics America, Inc (SAM)  
 Samsung Information Systems America, Inc (SIS)  
 Scansource, Inc. (SCA)  
 Scientific & Business Minicomputers, Inc. (SBM)  
 Seagate Technology, Inc. (SGT)  
 Seneca Data Distributors Inc. (SEN)  
 Sharp Cash Registers (SHP)  
 Sharp Copiers & Faxes (SHP)  
 Sharp Scanners/PTRS/PCs (SHP)  
 Simple Technology Incorporated (SIM)  
 Sidus Computer Corporation (SID)  
 Sony Electronics, Inc. (SON)  
 Southern Electronics Corporation (SED)

## Supplier

- - - - -

Southland Micro Systems, Inc. (SOU)  
 Star Micronics (STA)  
 Storage Dimensions, Inc. (STO)  
 Sun Microsystems Computer Corporation (SUN)  
 Sunnytech, Inc. (SNT)  
 Supercom, Inc (SCI)  
 Support Net, Inc. (SPN)  
 Symbios Logic, Inc. (SLI)  
 Synnex Information Technologies, Inc. (IE/SIT)  
 Teac America, Inc. (TEA)  
 Tech Data Corporation (TEC)  
 Tech 101 (TOA)  
 Technology Works, Inc. (TCW)  
 Telxon Corporation (TXN)  
 Tektronix, Inc. (TKT)  
 Time Trend, Inc. (TIM)  
 Toshiba America Information Systems, Inc. (TOS)  
 Total Peripherals, Inc. (TOP)  
 Transcend Information, Inc. (TRA)  
 Trans America International (TAI)  
 Twinhead Systems, Inc. (TWI)  
 Unigen Corporation (UNG)  
 US Robotics Mobile Communication Corp. (MEG)  
 ViewSonic Corporation (VIE)  
 Viking Components, Inc. (VIK)  
 VisionTek (VIS)  
 Westcon, Inc. (WCN)  
 Western Digital Corporation (WES)  
 Western Micro Technology, Inc. (WMT)  
 Wyle Laboratories (WYL)  
 Wyse Technology, Inc. (WYS)  
 Xylan Corporation (XYL)  
 Yamaha Corporation (YAM)  
 Zenith Data Systems (ZEN)  
 3 Com Corporation (3CO)

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