SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 1998

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

For the transition period from ____________________ to _____________________

Commission file number 33-70992

USA Technologies, Inc.

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

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

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

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

As of May 12, 1998, there were 36,504,492 shares of Common Stock, no par value, and 637,536 shares of Series A Convertible Preferred Stock, no par value, outstanding.

USA TECHNOLOGIES, INC.

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USA Technologies, Inc.
(A Development Stage Corporation)

Balance Sheets

	March 31, 1998	June 30, 1997
ASSETS:	(Unaudited)	
Current Assets:		
Cash and cash equivalents	$ 421,899	630,266
Accounts receivable less allowance for uncollectible accounts of $22,609 at March 31, 1998 (unaudited) and $19,345 at June 30, 1997	404,988	127,318
Inventory	596,330	378,318
Stock subscriptions receivable	--	60,000
Prepaid expenses and deposits	20,419	15,670
Total current assets	1,443,636	1,211,572
Property and equipment, at cost, net of accumulated depreciation of $251,320 at March 31, 1998 (unaudited) and $174,829 at June 30, 1997	102,689	178,457
Other assets	23,950	20,250
Total assets	$ 1,570,275	1,410,279
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 745,919	474,646
Accrued expenses	214,369	46,742
Current obligations under capital leases	21,579	18,270
Total current liabilities	981,867	539,658
Obligations under capital leases,less current portion	7,855	24,480
Total liabilities	989,722	564,138
Shareholders' equity:		
Preferred stock,no par value:		
Authorized shares -1,200,000		
Series A Convertible issued and outstanding shares - 641,036 at March 31,1998 (unaudited) and 861,205 at June 30, 1997 (Liquidation preference of $8,950,669 at March 31, 1998 - unaudited)	4,723,683	7,024,811
Common stock, no par value:		
Authorized shares - 55,000,000		
Issued and outstanding shares - 36,135,242 at March 31, 1998 (unaudited) and 29,969,934 at June 30,1997 ..	9,836,666	4,355,334
Deficit accumulated during the development stage	(13,979,796)	(10,534,004)
Total shareholders' equity	580,553	846,141
Total liabilities and shareholders' equity	$ 1,570,275	1,410,279

(See accompanying notes)

USA Technologies, Inc.
(A Development Stage Corporation)

Statements of Operations

	Three months ended March 31,		Nine months ended March 31,		Date of Inception Through	
	1998	1997	1998	1997	March 31, 1998	June 30, 1997
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Revenues:						
Equipment sales	$ 477,239	$ 102,347	$ 1,096,961	$ 189,514	$ 1,587,575	$ 490,614
License fees	70,969	32,332	173,709	77,441	354,525	180,816
Other	0	9,857	9,342	14,039	9,342	0
Total revenues	548,208	144,536	1,280,012	280,994	1,951,442	671,430
Expenses:						
Cost of sales	380,473	93,923	929,610	158,867	1,454,700	525,090
General and administrative	468,044	395,328	1,359,962	1,566,858	6,618,650	5,258,688
Compensation	320,723	240,802	968,798	732,621	4,515,032	3,546,234
Depreciation and amortization ...	25,497	28,297	76,491	74,819	272,135	195,644
Provision for losses on equipment	--	10,440	--	46,541	400,715	400,715
Costs incurred in connection with abandoned private placement	--	--	--	--	50,000	50,000
Interest expense (income)	(3,212)	2,760	(8,036)	14,780	50,694	58,730
Total expenses	1,191,525	771,550	3,326,825	2,594,486	13,361,926	10,035,101
Net loss	(643,317)	(627,014)	(2,046,813)	(2,313,492)	(11,410,484)	(9,363,671)
Cumulative preferred dividends	(464,277)	(577,301)	(1,109,431)	(1,169,452)		
Other adjustments	(58,715)	--	(645,135)	--		
Loss applicable to common shares ...	($ 1,166,309)	($ 1,204,315)	($ 3,801,379)	($ 3,482,944)		
Loss per common share	($ 0.03)	($ 0.05)	($ 0.11)	($ 0.17)		
Weighted average number of common shares outstanding	36,094,736	21,960,852	34,160,761	20,114,083		

(See accompanying notes)

USA Technologies, Inc.
(A Development Stage Corporation)

Statement of Shareholders' Equity
(Unaudited)

	Series A Convertible Preferred Stock	Common Stock	Deficit Accumulated During the Development Stage	Total
Balance, June 30, 1997	$7,024,811	$4,355,334	($10,534,004)	$846,141
July 1997-issuance of 40,000 shares of Common Stock in exchange for consulting services		14,355		14,355
July 1997-conversion of 1,000 shares of Convertible Preferred Stock to 12,000 shares of Common Stock	(8,157)	8,157		--
July 1997-conversion of $1,500 of cumulative preferred dividends into 1,807 shares of Common Stock at $.83 per share ..		1,500	(1,500)	--
July 1997- Common Stock warrants exercised-21,200 at $.20 per warrant		4,240		4,240
August 1997- Common Stock warrants exercised-986,000 at $.20 per warrant, net of offering costs		185,617		185,617
August 1997-conversion of 49,465 shares of Convertible Preferred Stock to 593,580 shares of Common Stock	(403,480)	403,480		--
August 1997-conversion of $220,485 of cumulative preferred dividends into 266,903 shares of Common Stock at $.83 per share ..		220,485	(220,485)	--
September 1997- Common Stock warrants exercised-40,000 at $.25 per warrant		10,000		10,000
September 1997- Common Stock warrants exercised-746,000 at $.20 per warrant, net of offering costs		118,622		118,622
September 1997-Common Stock options exercised-70,000 at $.05		3,500		3,500
September 1997-conversion of 80,755 shares of Convertible Preferred Stock to 969,060 shares of Common Stock	(658,711)	658,711		--
September 1997-conversion of $306,022 of cumulative preferred dividends into 368,700 shares of Common Stock at $.83 per share ..		306,022	(306,022)	--
October 1997- Common Stock warrants exercised-1,814,000 at $.25 per warrant ...		453,500		453,500
October 1997- Common Stock warrants exercised-1,099,800 at $.20 per warrant ...		219,960		219,960
October 1997-issuance of 5,333 shares of Common Stock in exchange for consulting services		2,754		2,754
October 1997-conversion of 17,280 shares of Convertible Preferred Stock to 207,360 shares of Common Stock	(141,004)	141,004		--
October 1997-conversion of $65,353 of cumulative preferred dividends into 78,739 shares of Common Stock at $.83 per share ..		65,353	(65,353)	--

USA Technologies, Inc.
(A Development Stage Corporation)

Statement of Shareholders' Equity (Continued)
(Unaudited)

	Series A Convertible Preferred Stock	Common Stock	Deficit Accumulated During the Development Stage	Total
November 1997-cancellation of 4,365,000 shares of Common Stock by the President of the Company	--	--	--	--
November 1997-issuance of 10,667 shares of Common Stock in exchange for consulting services		4,462		4,462
November 1997-conversion of 9,390 shares of Convertible Preferred Stock to 112,680 shares of Common Stock	(76,622)	76,622		--
November 1997-conversion of $43,132 of cumulative preferred dividends into 51,966 shares of Common Stock at $.83 per share		43,132	(43,132)	--
December 1997-issuance of 64,000 shares of Common Stock in exchange for consulting services		18,307		18,307
December 1997-conversion of 147,443 shares of Convertible Preferred Stock to 1,769,316 shares of Common Stock	(1,203,134)	1,203,134		--
December 1997-conversion of $522,952 of cumulative preferred dividends into 630,062 shares of Common Stock at $.83 per share		522,952	(522,952)	--
December 1997-issuance of 9,500 shares of Common Stock to employees as compensation .		2,565		2,565
January 1998-issuance of 124,000 shares of Convertible Preferred Stock at $5.00 per share less offering costs of $28,830	591,170			591,170
January 1998-issuance of 40,000 shares of Common Stock in exchange for consulting services		11,576		11,576
January 1998-conversion of 60,836 shares of Convertible Preferred Stock to 730,529 shares of Common Stock	(492,505)	492,505		--
January 1998-conversion of $223,785 of cumulative preferred dividends into 271,852 shares of Common Stock at $.83 per share		223,785	(223,785)	--
February 1998-issuance of 26,000 shares of Convertible Preferred Stock at $5.00 per share less offering costs of $6,045	123,955			123,955
February 1998-issuance of 40,000 shares of Common Stock in exchange for consulting services		14,871		14,871
February 1998-conversion of 3,000 shares of Convertible Preferred Stock to 32,000 shares of Common Stock	(24,480)	24,480		--
February 1998-conversion of $12,750 of cumulative preferred dividends into 13,518 shares of Common Stock at $.83/$1.00 per share		12,750	(12,750)	--
March 1998-issuance of 5,000 shares of Common Stock in exchange for consulting services		1,771		1,771
March 1998-conversion of 1,000 shares of Convertible Preferred Stock to 10,000 shares of Common Stock	(8,160)	8,160		--
March 1998-conversion of $3,000 of cumulative preferred dividends into 3,000 shares of Common Stock at $1.00 per share		3,000	(3,000)	--
Net loss			(2,046,813)	(2,046,813)
Balance, March 31, 1998	$ 4,723,683	$ 9,836,666	($13,979,796)	$ 580,553

(See accompanying notes)

USA Technologies, Inc.
(A Development Stage Corporation)

Statements of Cash Flows

	Nine months ended March 31, 1998	1997
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Net loss	($2,046,813)	($2,313,492)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation/amortization	76,491	74,819
Compensation charges incurred in connection with the issuance of Common Stock	70,661	182,700
Changes in operating assets and liabilities		
Accounts receivable	(277,670)	(135,443)
Inventory	(218,012)	5,631
Prepaid expenses and deposits ...	(8,449)	32,048
Accounts payable	271,273	(49,216)
Accrued expenses	167,627	59,703
Net cash used in operating activities	(1,964,892)	(2,143,250)
INVESTING ACTIVITIES		
Purchase of property and equipment	(723)	(17,856)
Net cash used in investing activities	(723)	(17,856)
FINANCING ACTIVITIES		
Net proceeds from issuance of common stock	1,055,439	682,456
Net proceeds from issuance of convertible preferred stock	715,125	93,500
Repayment of capital lease obligations	(13,316)	(6,272)
Net cash provided by financing activities	1,757,248	769,684
Net decrease in cash and cash equivalents	(208,367)	(1,391,422)
Cash and cash equivalents at beginning of period	630,266	1,773,356
Cash and cash equivalents at end of period	$ 421,899	$ 381,934
SUPPLEMENTAL DISCLOSURE OF CASHFLOW INFORMATION:		
Capital lease obligations	$ --	$ 32,762

USA TECHNOLOGIES, INC.
NOTES TO FINANCIAL STATEMENTS
(A Development Stage Corporation)

1. Business

USA Technologies, Inc., a Pennsylvania corporation (the "Company") was founded in January 1992. Substantially all of the Company's activities to date have been devoted to raising capital, developing markets, and starting up operations which commenced during July 1994. The Company is in the development stage and intends to become a leading provider and licensor of unattended, 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 retaining a portion of the monies generated from all credit card transactions conducted through its control systems, as well as the direct sale of its control systems and the resale of configured office products.

On September 24, 1997, the Company entered into a Joint Venture Agreement with Mail Boxes Etc. ("MBE"), the leading franchisor of postal, business, and communications retail service centers, with approximately 3,000 locations in North America. The joint venture ("MBE Joint Venture") exclusively sells and markets unattended, credit card activated business centers under the name MBE Business Express(TM) to the hospitality industry, travel industry, convention centers, colleges, universities, supermarkets, banks, military, convenience stores, and mass merchandisers located in the United States.

As of March 31, 1998, the Company had a total of 514 control systems in the field, distributed as follows: 331 Business Express(TM) control systems, 43 Copy Express(TM) control systems, 36 Debit Express(TM) control systems, 22 Fax/Printer Express(TM) control systems, and 81 Public PC(TM) control systems located at various hotels and libraries throughout the United States and Canada.

2. Accounting Policies

Interim Financial Information

The financial statements and disclosures included herein for the three and nine months ended March 31, 1998 and 1997 and from the date of inception through March 31, 1998 are unaudited. These financial statements and disclosures have been prepared by the Company in accordance with generally accepted accounting principles and reflect all adjustments consisting of adjustments of a normal and recurring nature which, in the opinion of management, are necessary for a fair presentation of the Company's financial position and the results of its operations and cash flows.

Inventory

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

Property and Equipment

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

Revenue Recognition

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

Loss per Common Share

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings per Share, which was adopted by the Company during the quarter ended December 31, 1997. The loss per common share is calculated based on the weighted average number of common shares outstanding during the periods. In calculating basic and diluted earnings(loss) per share, no exercise of stock options, purchase rights, stock purchase warrants, or the conversion of preferred stock and cumulative preferred dividends was assumed because the exercise or conversion of these securities would be antidilutive, in both calculations.

3. Stock Options, Warrants and Purchase Rights

As of March 31, 1998, there was a total of 157,300 Common Stock purchase rights outstanding at a price of $1.00 per share. As of March 31, 1998, there was a total of 4,051,000 options outstanding to purchase Common Stock at exercise prices ranging from $.25 to $.50 per share, of which 3,676,000 were vested. As of March 31, 1998, all of the options and purchase rights granted were issued at or above fair market value on the date of grant.

There are also 3,750,000 shares of Common Stock issuable upon exercise of the 1998 warrants issued in January and February 1998; 1,100,000 shares of Common Stock issuable upon exercise of warrants issued to affiliates and/or consultants of GEM Advisors, Inc. in June 1997; 15,000 shares of Common Stock issuable upon exercise of the 1997 warrants issued in 1997; 6,000 shares of Common Stock issuable upon exercise of the 1996-B warrants issued in January and February 1997; 864,000 shares of Common Stock issuable upon exercise of the 1996 warrants issued in 1996; and 694,000 shares of Common Stock issuable upon exercise of the 1995 warrants issued in 1995.

On April 13, 1998, the Board of Directors authorized reductions in the exercise price of stock options and purchase rights held by certain shareholders. A total of 1,500,000 stock options which were granted at prices from $.25 to $.45 were reduced to prices from $.10 to $.15, and a total of 157,300 purchase rights granted at $1.00 were reduced to $.25.

4. Escrow and Cancellation Arrangements

As of June 30, 1997, at the request of the Pennsylvania Securities Commission, the President had agreed to place in escrow 7,593,000 shares of Common Stock, of which 4,365,000 were subject to cancellation if certain events did not occur on or before June 30, 1998. On November 20, 1997, the President cancelled the 4,365,000 shares which had been in escrow, and the remaining 3,228,000 shares held in escrow were returned to the President. At the request of the Pennsylvania Securities Commission, the President agreed that all of the shares released to him shall not be sold, pledged, hypothecated or transferred, directly or indirectly, by him through June 30, 1998, as stated in the escrow agreement. In addition, any additional shares of Common Stock, of which the President shall acquire beneficial and/or record ownership during such period of time, whether by exercise of options, warrants, or otherwise (including a right of conversion), shall be subject to such agreement.

5. Private Placement

On March 5, 1998 the Company completed a private placement offering of 75 units of Series A Convertible Preferred Stock at a price of $10,000 per unit, generating net proceeds to the Company of approximately $715,000. Each unit of the offering consisted of 2,000 shares of Series A Convertible Preferred Stock and 50,000 1998 Common Stock Purchase Warrants. The 1998 Warrants enable the holder to purchase one share of Common Stock for $.15 on or before June 1, 1998 and for $.40 through March 5, 2003.

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

Introduction

Since its inception in January 1992, the Company, a development stage corporation, has been engaged largely in research and development activities focused on designing, developing, and marketing its credit card activated control systems. From inception through March 31, 1998, the Company has had operating revenues of $1,951,442 and has generated funds primarily through the sale of its securities. As of March 31, 1998, the Company has received, net of expenses of such sales, the amount of $6,249,672 in connection with private placements, $2,698,847 from the exercise of Common Stock purchase warrants and options, and $2,345,104 in connection with its initial public offering. The Company has incurred operating losses since its inception through March 31, 1998 of $11,410,484 and such losses are expected to continue at least into the quarter ended December 31, 1998.

Results of Operations

The fiscal quarter ended March 31, 1998 resulted in a net operating loss of $643,317 compared to a net loss of $627,014 for the comparable fiscal quarter ended March 31, 1997. On an overall basis these continuing losses reflect the development stage nature of the Company. Losses are projected to continue until sufficient revenue is generated from various applications of the Company's proprietary technology as well as equipment sales.

Revenue from operations was $548,208 compared to $144,536 from the previous year's fiscal quarter. This $403,672 improvement reflects the success of the Company's sales efforts and the increasing marketplace acceptance of the Company's products. Of the total revenues, equipment sales totaled $477,239, an increase of $374,892 over the same period last year. License fees increased to $70,969 from $32,332 for the same period during the prior year, an increase of 120%. Despite these gains, revenue is still well below the level required for the Company to be profitable.

Cost of sales for the period included labor and equipment of $380,473 which represented an increase of $286,550 over the same period during the prior year, and is directly attributable to the increase in equipment sales.

General and administrative expenses of $468,044 increased by $72,716 or 18% from the same quarter last year. Higher professional fees, advertising and promotional expenses offset reductions in consultant fees and supplies.

Compensation expense of $320,723 increased by 22% due to permanent and higher personnel requirements in all areas of the Company. Depreciation and amortization expense decreased nominally from $28,297 to $25,497.

The nine month period ended March 31, 1998 resulted in a net loss of $2,046,813, compared to a net loss of $2,313,492 from the same period last year. Net revenue increased to $1,280,012 from $280,994 for the same period last year. Total expenses rose to $3,326,825 from $2,594,486, principally due to increases in cost of sales ($770,743) and compensation expense ($236,177), offset by decreases in general and administrative expense ($206,896).

Plan of Operations

As of March 31, 1998, the Company had a total of 514 control systems in the field, distributed as follows: 331 Business Express(TM) control systems, 43 Copy Express(TM) control systems, 36 Debit Express(TM) control systems, 22 Fax/Printer Express(TM) control systems, and 81 Public PC(TM) control systems located at various hotels and libraries throughout the United States and Canada. The total license fee revenues received by the Company from these systems has been increasing but is still well below the level required to achieve profitability.

During the past nine months the Company continued to emphasize the resale of equipment utilizing the Company's control systems rather than the revenue sharing arrangements previously employed. The Company still retains all rights to software and proprietary technology which it licenses to location operators for their exclusive use. This shift in approach reduces the Company's dependency on licensing revenues and simultaneously reduces the Company's capital asset requirements.

The Company is marketing its products through its full-time sales staff consisting of four persons, either directly to customer locations or through facility management companies servicing these locations.

On February 17, 1998, Prime Hospitality Corp. ("Prime") entered into an agreement with the MBE Joint Venture pursuant to which Prime would purchase 100 MBE Business Express (TM) units for installation at Prime's owned and managed hotels. The agreement provides that Prime would purchase the first six units on a trial basis. If the 90 day trial is successful, then Prime would order the remaining 94 units. If the trial period is not successful, Prime would not purchase any additional units and the Joint Venture would repurchase the initial six units from Prime at the price originally paid by Prime. The agreement provides for a purchase price of approximately $1.7 million for all 100 units. As of May 5, 1998, 5 of the 6 initial units have been installed.

On March 31, 1998, the MBE Joint Venture signed agreements with International Business Machines Corporation ("IBM") whereby IBM agrees to be the executional partner for certain aspects of the MBE 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. IBM would also assist the MBE Joint Venture with marketing and technology exchange.

The Company believes that its research and development efforts over the past several years have produced an operational and marketable product, and that sales of that product are becoming commercially significant. Accordingly, effective April 1, 1998, the Company will no longer report results as a development stage enterprise.

Liquidity and Capital Resources

For the nine month period ended March 31, 1998, there was a net decrease in cash of $208,367. This was attributable to using $1,964,892 for operating activities, partially offset by net proceeds of $1,055,439 raised through the exercise of Common Stock purchase warrants, and net proceeds of $715,125 raised through the issuance of Convertible Preferred Stock. As of March 31, 1998, total cash on hand was $421,899, and working capital was approximately $461,769 of which $596,330 was invested in inventory.

On September 11, 1997, the Company's Board of Directors decided to maintain the exercise price of the 1996-B and 1997 Common Stock purchase warrants at $.20 through September 30, 1997 (rather than only through August 31, 1997 as previously provided). On November 13, 1997, the Company's Board of Directors decided to maintain the exercise price of the 1996-B and 1997 Common Stock purchase warrants at $.20 through October 31, 1997 (rather than September 30, 1997 as revised above). During the nine months ended March 31, 1998, 368,000 1996-B and 1,585,000 1997 Common Stock purchase warrants were exercised for gross proceeds to the Company of $390,600.

On September 11, 1997, the Board of Directors approved a temporary reduction in the exercise price of the 1995 and 1996 Common Stock purchase warrants from $.50 to $.25 during the period of September 11, 1997 through October 31, 1997. During the nine month period ending March 31, 1998, a total of 720,000 1995 and 1,134,000 1996 Common Stock purchase warrants were exercised, providing gross proceeds of $463,500 to the Company.

During the nine months ended March 31, 1998, GEM Management Limited, an affiliate of GEM Advisors, Inc., exercised Common Stock purchase warrants for 900,000 shares of Common Stock at an exercise price of $.20 per share generating gross proceeds of $180,000.

The 1998 Private Placement of 75 units of Convertible Preferred Stock at $10,000 per unit generated net proceeds to the Company of $715,125. Attached to each unit were 50,000 Common Stock Purchase Warrants ("1998-A Warrants). The Company has registered the Common Stock underlying the 1998-A Warrants for resale, and until June 1, 1998, the 1998-A Warrants can be exercised at $.15 per Warrant. The Company believes that the above warrant proceeds, together with money available from the exercise of outstanding options and other warrants, plus inventory financing from IBM and increased revenues from its business would be sufficient to fund operations through the quarter ending September 30, 1998. There can be no assurance that any such additional sales of securities could be made by the Company or that increased revenues would result from its business. In such event, the Company may cease to be a going concern or may have to reduce its operations or operating procedures.

Part II - Other information

Items 1, 3, and 4 are not applicable.

Item 2. Changes in Securities

During the quarter ended March 31, 1998, the Company completed a private placement offering pursuant to Regulation D promulgated under the Securities and Exchange Act of 1933, as amended, for $750,000 of the Company's securities. The offering consisted of 75 units at $10,000 each, with each unit consisting of 2,000 shares of Preferred Stock and 50,000 1998-A Warrants. The Preferred Stock is convertible at any time into shares of Common Stock, no par value, at a rate of 10 shares of Common Stock for each share of Preferred Stock. The 1998-A Warrants enable the holder to purchase one share of Common Stock for $.15 on or before June 1, 1998 and for $.40 through March 5, 2003.

Item 5. Other Information

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. Mr. Sterling has agreed to act as a consultant to the Company through June 30, 1998. The Company agreed to reduce the exercise price of Mr. Sterling's options to purchase 450,000 shares of Common Stock to $.10 per share from $.25 and $.45 per share, and accelerated the additional vesting of 25,000 options to April 3, 1998.

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 - 50,000 options; Peter G. Kapourelos - 100,000 options; William W. Sellers - 100,000 options; Keith L. Sterling - 100,000 options; and William L. Van Alen, Jr. - 100,000 options.

In March 1998, the Company extended the expiration date of all the purchase rights to acquire 157,300 shares of Common Stock at $1.00 per share from June 30, 1998 to the close of business on June 30, 2000.

In April 1998, the Company reduced from $.25 to $.15 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: Peter G. Kapourelos - 170,000 options; William W. Sellers - 155,000 options; William L. Van Alen, Jr. - 125,000 options; Henry B. DuPont Smith - 100,000 options; and Haven Brock Kolls, Jr. - 100,000 options.

In April 1998, the Company reduced from $.45 to $.15 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 - 100,000; and Stephen P. Herbert - 100,000 options.

In April 1998, the Company authorized a reduction in the exercise price of the options to purchase 200,000 shares of Common Stock of the Company owned by Adele Hepburn, an employee of the Company, from $.25 to $.15.

In April 1998, the Company authorized a reduction in the exercise price of 157,300 purchase rights from $1.00 per share to $.25 per share through June 30, 1998, at which time the exercise price will revert back to $1.00 per share.

All of the above reductions of the exercise prices were to a price which was less than the fair market value of the Common Stock as of the date of such reductions.

In April 1998, the Company issued to each of Leland P. Maxwell, Haven Brock Kolls, Jr., and Stephen P. Herbert, officers of the Company, options to purchase up to 50,000 shares of Common Stock at $.45 per share. Such options vest ratably over a 12 month period and shall be exercisable at any time for a five year period following vesting. The exercise price of these options is equal to or greater than the fair market value of the Common Stock on the date of grant.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Separation Agreement between the Company and Keith L. Sterling dated April 8, 1998.

(b) Reports on Form 8-K

On January 29, 1998, the Company filed with the Securities and Exchange Commission a Form 8-K which reported items under Item 5. Other Events and Item 7. Exhibits.

Signatures

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

USA TECHNOLOGIES, INC.

Date: May 12, 1998 /s/ George R. Jensen, Jr.

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

Date: May 12, 1998 /s/ Leland P. Maxwell

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

USA TECHNOLOGIES, INC.
200 Plant Avenue
Wayne, Pennsylvania 19087

April 8, 1998

Mr. Keith L. Sterling
114 South Valley Road
Paoli, Pennsylvania 19033

Re: Separation Agreement

Dear Keith:

This will confirm your resignation as the Executive Vice President-Systems and Chief Information Officer, Secretary and as a Director of the Company effective at the close of business on April 2, 1998. This letter also sets forth the various agreements we have reached concerning your separation from the Company as well as the terms of a consulting arrangement.

1. Consulting Arrangement.

A. Effective April 3, 1998, you shall no longer be an employee of the Company and the Employment Period as defined under your Employment And Non-Competition Agreement dated as of July 1, 1993, as amended by the First Amendment thereto dated as of April 29, 1996 ("Employment Agreement"), is hereby terminated. From and after April 3, 1998 and through June 30, 1998, you shall act as a consultant to the Company. In such capacity, you shall perform such projects, under my direction, as shall be requested from time to time on an "as needed" basis. In consideration for your consulting services, and subject to Section 8 hereof, the Company shall continue to pay to you your current base salary through June 30, 1998, and to provide to you your existing benefits through June 30, 1998 at no cost to you. After June 30, 1998, you shall not be provided or covered by any Company-paid benefits or receive any further payments from the Company.

B. Notwithstanding subparagraph A. above, and the termination of the Employment Period under your Employment Agreement, this will confirm that Sections 5, 6, and 7 of the Employment Agreement, relating to non-disclosure and non-competition restrictions, shall not be terminated and shall survive and remain in full force and effect in accordance with all of their terms and conditions.

2. Stock Options. Subject to the provisions of Section 8 hereof, the Company agrees that effective on and after July 5, 1998, all of the options to purchase 450,000 shares of Common

Stock of the Company which have been issued to you shall be exercisable at $.10 per share through the various expiration dates of the options. Of such options, 300,000 are currently exercisable at $.25 per share, and the remaining 150,000 are currently exercisable at $.45 per share. This will also confirm that as of the date hereof, 425,000 of your 450,000 stock options are vested. We have agreed that the 25,000 options which have been issued to you but which are not vested as of the date hereof shall become irrevocably and fully vested immediately. Except as specifically set forth in this Section 2, all of the existing terms and conditions of the stock options shall remain in full force and effect. You acknowledge that your stock options are not incentive stock options as such term is defined in Section 422 of the Internal Revenue Code of 1986, as amended, or part of an employee stock purchase plan as defined in Section 423 thereunder. As a result, among other things, taxable income will be realized by you during the 1998 calendar year as a result of the reduction of the exercise price of the stock options as set forth herein as well as at the time of the exercise of any such stock options. You understand that you and not the Company shall be responsible for the payment of all such taxes resulting therefrom.

3. Sterling General Release. You agree, intending to be legally bound, to voluntarily and forever release and discharge the Company, as well as all of its past, present and future officers, directors, employees, shareholders and agents and their respective successors and assigns (collectively "Releasees"), jointly and severally, from any and all actions, charges, causes of action or claims of any kind (collectively, "claims"), known or unknown, suspected or claimed, which you, your heirs, agents, successors or assigns ever had, now have or hereafter may have against Releasees arising heretofore out of any matter, occurrence or event existing or occurring prior to the execution hereof, including, without limitation:

(a) Any claims relating to or arising out of your employment with and/or separation of employment by the Company;

(b) Except as specifically provided otherwise herein, any claims for unpaid or withheld wages, severance, benefits, bonuses and/or other compensation of any kind;

(c) Any claims for attorneys' fees, costs or expenses;

(d) Any claims of discrimination and/or harassment based on age, sex, race, religion, color, creed, disability, handicap, citizenship, national origin, sexual preference or any other factor prohibited by Federal, state or local law or ordinance, common law or administrative regulations (such as the Age Discrimination in Employment Act, the Americans With Disabilities Act, Title VII of the Civil Rights Act of 1964, the Employee Retirement Income Security Act and the Pennsylvania Human Relations Act), and/or any other statutory or common law claims, now existing or hereinafter recognized, including, but not limited to, breach of contract, quasi-contract, breach of covenant of good faith and fair dealing, detrimental reliance, libel, slander, fraud, wrongful discharge, promissory estoppel, equitable estoppel and intentional or negligent misrepresentation, and/or any rights under any of the foregoing laws or regulations.

In addition, you covenant and agree to never, individually or with any other person or in any way, commence, aid in any fashion, prosecute or cause or permit to be commenced against the Company or any Releasee any action, obligation, damage, or liability that is the subject matter of this Section 3.

You agree that your resignation as a Director is not in connection with any disagreement with the Company on any matter relating to the Company's operations, policies or practices, and that you shall not request the Company to disclose any such disagreement in connection with your resignation as a Director in any public filing under the Securities Exchange Act of 1934.

4. A. Company General Release. The Company agrees, intending to be legally bound, to voluntarily and forever release and discharge you, as well as all of your heirs, personal representatives, successors and assigns (collectively "Releasees"), jointly and severally, from any and all actions, charges, causes of action or claims of any kind, known or unknown, suspected or claimed, which the Company ever had, now has or hereafter may have against Releasees arising heretofore out of any matter, occurrence or event existing or occurring prior to the Company's execution hereof. In addition, the Company covenants and agrees to never, by itself or with any other person or in any way, commence, aid in any fashion, prosecute or cause or permit to be commenced against any Releasee any action, obligation, damage, or liability that is the subject matter of this Section 4.

B. Company Indemnification. This will confirm that notwithstanding anything else contained in this letter, you shall continue to be indemnified under the Company's By-laws to the fullest extent provided or to be provided from time to time thereunder to officers or Directors of the Company.

5. Return of Company Property. As a condition precedent to the execution of this Agreement, you agree to return to the Company any of its property either issued to you or now in your possession, including but not limited to, any Company credit cards, American Express cards, pagers and keys to the Company's office. In addition, you shall immediately surrender to the Company any and all materials, documents, software, manuals or other records, in your possession or control, which include or contain any confidential information of or concerning the business or policies of the Company, and you will not retain or use any copies or summaries thereof.

6. Future Actions.

A. From and after the date hereof, you agree not to take any actions which are specifically intended to damage the business interests of the Company or which reflect negatively on the Company or its employees, directors, shareholders or agents, including but not limited to, contacting the Company's agents, customers, suppliers, employees (past, present or future to the extent you know them to be related to the Company), or using documents or other data obtained while in the employ of the Company, in a manner that interferes with or damages the Company's reputation, purpose or employee relations.

B. In addition to the restrictions set forth in subparagraph A., and unless you shall have obtained the prior written consent of the Company, from and after the date hereof, you shall not, directly or indirectly, disclose, discuss or communicate in any manner whatsoever, any information or data about or concerning the Company's business, employees, policies, products, contractual arrangements, shareholders, or operations, with any past, present or future customer, supplier, or agent of the Company, including but not limited to International Business Machines Corporation or Mail Boxes Etc. USA, Inc. The foregoing shall apply to all information or data concerning the Company's business, operations, products, contractual arrangements, shareholders, policies, or employees, whether or not such information is claimed to be secret or proprietary by the Company, and whether or not such information is disseminated to or otherwise available to the public.

7. Proprietary Information.

A. This will confirm that all documents, data, know-how, designs, processes, inventions, names, marketing information, method or means, materials, software programs, hardware, configurations, information, data processing reports, lists and sales analyses, price lists or information, or any other materials or data of any kind furnished to you by the Company, or developed by you on behalf of the Company or at the Company's direction or for the Company's use, or otherwise devised, developed, created, or invented in connection with your employment or your affiliation with the Company, are and shall remain the sole and exclusive property of the Company, and you shall have no right or interest whatsoever thereto, including but not limited to any copyright or patent interest whatsoever.

B. You shall not, directly or indirectly, at any time from and after the date hereof, make any use of, exploit, disclose, or divulge to any other person, firm or corporation, any trade or business secret, customer or supplier information, documents, know-how, data, marketing information, method or means, or any other confidential (i.e. not already otherwise disseminated to or available to the public) information concerning the business or policies of the Company, that you learned as a result of, in connection with, through your employment with, or through your affiliation with the Company.

8. Remedies. In the event that you should breach any term or condition of this letter or the Employment Agreement, the exercise price of any of the unexercised options then held by you (or your assignees) shall automatically and without any action on the part of the Company be increased to their original exercise price. In addition, in the event of any such breach, the Company shall cease paying to you any payments under Section 1 hereof, and immediately cease to provide you with Company-paid benefits pursuant to such Section. The foregoing remedies shall be cumulative, and shall be in addition to any remedies otherwise available to the Company at law or in equity or otherwise. In the event of any breach hereof, you shall pay all of the costs and expenses incurred by the Company in enforcing the provisions hereof, including its attorney's fees.

9. Severability. Should any provision of this letter be held invalid or illegal, such illegality shall not invalidate the whole of this letter but rather, the letter shall be construed as if it did not contain the invalid or illegal part, and the rights and obligations of the parties shall be construed and

enforced accordingly.

10. Merger Clause. This letter contains the complete understanding and agreement between the parties hereto and supersedes any and all prior and contemporaneous agreements, understandings, negotiations and discussions between the parties, oral or written, express or implied. Notwithstanding the prior sentence, however, and as indicated in Section 1.B., the provisions of Sections 5, 6 and 7 of your Employment Agreement shall remain in full force and effect.

11. Choice of Law; Successors . This letter has been executed in the Commonwealth of Pennsylvania and shall be construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to its conflict of law rules. This letter shall be binding upon our respective, permitted successors, assigns, heirs, and personal representatives.

12. Effective Date. You have twenty-one (21) days within which to consider this letter. If you sign this letter, you will retain the right to revoke it for seven (7) days. This letter shall not be effective until this revocation period has expired. To revoke the letter, you must send a certified letter to my attention. The letter must be postmarked within seven (7) days of your execution of this letter. Finally, this will confirm that the Company has advised you to consult with an attorney prior to your execution of this letter.

Keith, please indicate your agreement with this letter by signing this letter below where indicated and returning it to me.

Sincerely,

USA TECHNOLOGIES, INC.

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

George R. Jensen, Jr., Chief
Executive Officer

UNDERSTOOD AND AGREED:

/s/ Keith L. Sterling
- ------------------------------
KEITH L. STERLING

Date: 4/2/98

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