U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 1O-QSB

(Mark One)

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

For the quarterly period ended December 31, 2001

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

For the transition period from ____________________ to _____________________

Commission file number 33-70992

USA Technologies, Inc.

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

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

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

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

As of February 15, 2002, there were 35,399,300 shares of Common Stock, no par value, outstanding.

USA TECHNOLOGIES, INC.

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USA Technologies, Inc.
Balance Sheets

	December 31, 2001	June 30, 2001
	(Unaudited)	(Note 2)
Assets		
Current assets:		
Cash and cash equivalents	$ 1,132,494	$ 817,570
Accounts receivable	139,562	64,752
Inventory	747,765	560,410
Prepaid expenses and other current assets	721,354	428,825
Subscriptions receivable	781,500	29,000
Total current assets	3,522,675	1,900,557
Property and equipment, net of accumulated depreciation of $835,915 at December 31, 2001 and $672,913 at June 30, 2001	630,092	761,324
Software development costs	4,666,130	3,087,415
Other assets	388,865	430,765
Total assets	$ 9,207,762	$ 6,180,061
Liabilities and shareholders' deficit		
Current liabilities:		
Accounts payable	$ 2,716,090	$ 2,607,570
Accrued expenses	1,027,674	1,355,595
Funds deposited for Senior Notes	895,601	-
Equipment line of credit	42,132	45,785
Current obligations under convertible Senior Notes	240,000	211,704
Current obligations under capital leases	58,661	70,446
Total current liabilities	4,980,158	4,291,100
Convertible Senior Notes, less current portion	4,497,228	4,236,281
Convertible Debenture, less current portion	54,792	-
Obligations under capital leases, less current portion	17,798	53,577
Total liabilities	9,549,976	8,580,958
Shareholders' deficit:		
Preferred Stock, no par value:		
Series A Convertible Preferred:		
Authorized shares - 1,800,000; issued and outstanding shares - 550,959 at December 31, 2001 and 555,284 at June 30, 2001 (liquidation preference of $10,582,879 at December 31, 2001)	3,902,632	3,933,253
Common Stock, no par value:		
Authorized shares - 62,000,000		
Issued and outstanding shares - 32,910,612 at December 31, 2001 and 21,450,755 at June 30, 2001	39,774,958	32,977,922
Deferred compensation	(51,500)	(103,000)
Accumulated deficit	(43,968,304)	(39,209,072)
Total shareholders' deficit	(342,214)	(2,400,897)
Total liabilities and shareholders' deficit	$ 9,207,762	$ 6,180,061

See accompanying notes.

USA Technologies, Inc.
Statements of Operations
(Unaudited)

	Three months ended December 31, 2001	Three months ended December 31, 2000	Six months ended December 31, 2001	Six months ended December 31, 2000
Revenues:				
Equipment sales	163,210	$ 94,242	$ 365,106	$ 337,040
License and transaction fees	161,672	164,000	325,523	327,961
Total revenues	324,882	258,242	690,629	665,001
Operating expenses:				
Cost of sales	196,998	135,671	410,031	386,177
General and administrative	1,468,237	1,196,590	2,599,442	2,032,076
Compensation	827,720	485,446	1,729,813	1,077,475
Depreciation	81,181	34,349	163,002	67,172
Total operating expenses	(2,574,136)	(1,852,056)	(4,902,288)	(3,562,900)
	(2,249,254)	(1,593,814)	(4,211,659)	(2,897,899)
Other income (expense):				
Interest income	3,511	18,250	6,267	46,934
Interest expense:				
Coupon or stated rate	(170,501)	(127,920)	(336,998)	(256,466)
Non-cash amortization of debt discount	(246,432)	(234,209)	(525,088)	(468,920)
Less: amount capitalized	200,000	46,421	347,166	69,669
Total interest expense	(216,933)	(315,708)	(514,920)	(655,717)
Total other income (expense)	(213,422)	(297,458)	(508,653)	(608,783)
Loss before cumulative effect of accounting change and extraordinary item	(2,462,676)	(1,891,272)	(4,720,312)	(3,506,682)
Cumulative effect of accounting change	-	(821,000)	-	(821,000)
Loss before extraordinary item	(2,462,676)	(2,712,272)	(4,720,312)	(4,327,682)
Extraordinary loss on exchange of debt	-	(863,000)	-	(863,000)
Net loss	(2,462,676)	(3,575,272)	(4,720,312)	(5,190,682)
Cumulative preferred dividends	-	-	(413,219)	(421,833)
Loss applicable to common shares	$(2,462,676)	$(3,575,272)	$(5,133,531)	$(5,612,515)
Loss per common share (basic and diluted)	$ (.08)	$ (0.23)	$ (.19)	$ (0.37)
Weighted average number of common shares outstanding (basic and diluted)	30,178,507	15,663,722	27,313,543	14,996,487

See accompanying notes.

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

	Series A Convertible Preferred Stock	Common Stock	Deferred Compensation	Accumulated Deficit	Total
Balance, June 30, 2001	$ 3,933,253	$32,977,922	$ (103,000)	$ (39,209,072)	$ (2,400,897)
Conversion of 4,325 shares of Preferred Stock to 4,325 shares of Common Stock	(30,621)	30,621	-	-	-
Conversion of $38,920 of cumulative preferred dividends into 3,892 shares of Common Stock at $10.00 per share	-	38,920	-	(38,920)	-
Issuance of 1,330,500 shares of Common Stock in exchange for professional services	-	500,640	-	-	500,640
Issuance of 500,000 Common Stock Warrants in exchange for professional services	-	115,000	-	-	115,000
Issuance of 200,000 Common Stock Options in exchange for professional services	-	66,000	-	-	66,000
Issuance of 498,000 shares of Common Stock from the conversion of $622,500 of the 2000 12% Senior Notes at $1.25 per share	-	622,500	-	-	622,500
Exercise of 30,000 Common Stock warrants at $1.00 per share	-	30,000	-	-	30,000
Compensation expense related to deferred stock awards	-	-	51,500	-	51,500
Exercise of 500,000 Common Stock warrants at $.29 per share, net of offering costs	-	142,900	-	-	142,900
Issuance of 38,850 shares of Common Stock from the conversion of $10,000 of 9-3/4% debentures and the related exercise of Common Stock warrants at $.2574 per share to purchase 388,500 shares of Common Stock	-	83,717	-	-	83,717
Issuance of 4,726,040 shares of Common Stock in connection with the 2001-B Private Placement, net of offering costs of $108,630	-	2,765,991	-	-	2,765,991
Issuance of 3,704,576 shares of Common Stock in connection with the 2001-C Private Placement, net of offering costs of $203,567 and net of subscriptions receivable of $270,000	-	1,608,852	-	-	2,114,065
Issuance of 235,174 shares of Common Stock in lieu of cash payment for interest on the 2000 12% Convertible Senior Note Offering	-	117,867	-	-	117,867
Debt discount relating to beneficial conversion feature on the 2001 12% Senior Notes due 2004	-	429,948	-	-	429,948
Debt discount relating to beneficial conversion feature on the $225,000, 9-3/4% Convertible Debenture	-	225,000	-	-	225,000
Other	-	19,080	-	-	19,080
Net loss	-	-	-	(4,720,312)	(4,706,973)
Balance, December 31, 2001	$ 3,902,632	$ 39,774,958	$ (51,500)	$(43,968,304)	$ (342,214)

See accompanying notes.

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

	Six months ended December 31, 2001	2000
Operating activities		
Net loss	$(4,720,312)	$ (3,576,352)
Adjustments to reconcile net loss to net cash used in operating activities:		
Compensation charges incurred in connection with Stock awards and the issuance of Common Stock	1,914,241	71,775
Issuance of Common Stock in lieu of cash payments for interest on Senior Note	117,867	
Interest/amortization relating to Senior Note Offering	525,088	468,920
Depreciation	163,002	93,589
Provision for allowance for uncollectible accounts	11,855	9,875
Changes in operating assets and liabilities:		
Accounts receivable	(86,665)	368,712
Inventory	(187,355)	(357,166)
Prepaid expenses, deposits, and other assets	264,774	152,243
Accounts payable	108,520	444,252
Accrued expenses	(327,921)	192,896
Net cash used in operating activities	(2,216,906)	(2,131,256)
Investing activities		
Purchase of property and equipment	(31,770)	(221,856)
Increase in software development costs	(1,578,715)	(724,021)
Net cash used in investing activities	(1,610,485)	(945,877)
Financing activities		
Net proceeds from issuance of Common Stock and exercise of Common Stock warrants	2,715,916	2,067,651
Net proceeds from issuance of Senior Notes and Convertible Debenture	558,015	12,840
Increase in funds deposited for Senior Notes	895,601	--
Net repayment of equipment line of credit	(3,653)	(74,235)
Payment of deferred financing costs		(49,227)
Collection of subscriptions receivable	24,000	12,199
Repayment of principal on capital lease obligations	(47,564)	(7,489)
Net cash provided by financing activities	4,142,315	1,961,739
Net (decrease) increase in cash and cash equivalents	314,924	(1,115,394)
Cash and cash equivalents at beginning of year	817,570	1,859,360
Cash and cash equivalents at end of period	$1,132,494	$ 743,966
Supplemental disclosures of cash flow information:		
Conversion of Convertible Preferred Stock to Common Stock	$ 30,621	$ 84,960
Conversion of Convertible Preferred Dividends to Common Stock	$ 38,920	$ 98,980
Conversion of Senior Notes to Common Stock	$ 622,500	$ 7,482
Cash paid for interest	$ 336,998	$ 256,466
Prepaid stock compensation granted	$ 557,303	$ -
Subscriptions receivable outstanding	$ 781,500	$ 510,000
Issuance of Common Stock in connection with 2000 Senior Note Offering	$ --	$ 7,042
Capital lease obligations	$ --	$ 42,630

See accompanying notes.

1. Business

USA Technologies, Inc. provides unattended, cashless payment / control systems and associated network and financial services for the copy, fax, debit card, smart card, vending, laundry and personal computer industries. The Company's devices make available credit and debit card and other payment methods in connection with the sale of a variety of products and services. Customers are located primarily in the continental United States. The Company also has installations in Alaska, Hawaii, Puerto Rico and Europe. Sample customers include major hotel chains, consumer package goods companies, information technology companies, and vending operators. Distribution and strategic partners include International Business Machines, Marconi plc., DoubleClick, Xerox and Sprint. Manufacturing partners include Rad.Sys and Masterwork Electronics. The Company generates its revenues from the direct sale of its control systems and the resale of configured business equipment utilizing its control systems, as well as by network fees and a percentage of the monies generated from all credit card transactions conducted through its control systems.

The Company has developed and commenced shipping of its next generation of cashless control/payment systems, network and financial services (e-Port(TM)). Current e-Port(TM) shipments include capabilities for credit card processing, tracking of vending inventory, wireless communication and reporting of this inventory data to a monitoring station. New networking and financial services capabilities currently being delivered via USALive(TM) to customers include electronic transfer of funds and transaction reports to customers. e-Port(TM) terminal and USALive network capabilities currently in beta and targeted for shipment to certain customers during the fourth quarter of fiscal 2002 include interactive advertising, web based transaction reporting and terminal management, and acceptance of other forms of cashless payment systems.

At December 31, 2001, the Company had a total of 1,683 terminals installed at various hotels, libraries, and vending machines located throughout the United States and Canada. This represented an increase of 344 terminals based on an installed base of 1,339 terminals as of December 31, 2000.

2. Accounting Policies

Interim Financial Information

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary have been included. Operating results for the three and six month period ended December 31, 2001 are not necessarily indicative of the results that may be expected for the year ending June 30, 2002. The balance sheet at June 30, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended June 30, 2001.

Use of Estimates

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

Cash Equivalents

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

Inventory

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

Property and Equipment

Property and equipment are recorded at cost. The straight-line method of depreciation is used over the estimated useful lives of the related assets.

Revenue Recognition

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

Software Development Costs

The Company capitalizes software development costs that are incurred subsequent to the establishment of the software's technological feasibility and up to the product's availability for general release to the Company's customers. Through December 31, 2001, the Company has capitalized approximately $4.7 million of such costs relating to the development of the e-Port(TM) network. Amortization of such capitalized costs will be the greater of the amount computed using (i) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues of that product or (ii) the straight line method over the remaining estimated economic life of the product, including the period being reported on. Amortization of such costs will commence when the software becomes available for general release and use by the Company's customers which is expected to occur in the third quarter of fiscal 2002. The Company anticipates capitalization of an additional $400,000 during the third quarter of fiscal 2002 prior to release of the basic networked, internet capable e-Port(TM) to the marketplace, and an additional amount thereafter for enhancements to the basic network. All costs incurred in the research and development of new software and costs incurred prior to the establishment of technological feasibility have been expensed as incurred.

Loss Per Common Share

Basic earnings per share is calculated by dividing income (loss) applicable to common shares by the weighted average common shares outstanding for the period. Diluted earnings per share is calculated by dividing income (loss) applicable to common shares by the weighted average common shares outstanding for the period plus the dilutive effect (unless such effect is anti-dilutive) of equity instruments. No exercise of stock options, purchase rights, stock purchase warrants, or the conversion of senior notes, debentures, preferred stock, or cumulative preferred dividends was assumed for all periods presented because the assumed exercise of these securities would be antidilutive.

Reclassification

During April 2001, the Company granted 6,000,000 fully vested options to a distributor in connection with the signing of a five-year distribution agreement. The estimated fair value of the options was $420,000 and is being recorded as a reduction of revenues or as selling, general, and administrative expenses, to the extent revenues have not been earned, over the term of the distribution agreement. Prior to December 31, 2001, the unamortized balance had previously been classified as a contra-equity account. Pursuant to EITF 00-18, the Company has presented the unamortized balance as an other asset on the consolidated balance sheet at December 31, 2001 and has reclassified the June 30, 2001 balance sheet to be consistent with the current period presentation.

3. Financing Activities

During the quarter ended December 31,2001, the Company initiated a $2,500,000 private placement offering (the "2001-D" offering), consisting of 12% Convertible Senior Notes ("Notes") due December 31, 2004. Each $10,000 Unit is convertible into Common Stock at $.40 per share, and interest is payable quarterly. Certain stockholders of the Company, who received warrants to purchase common stock of the Company as a part of earlier private placements, received an extension of the termination date and a reduction of the exercise price of a portion of their warrants if they invested in the 2001-D Offering. The warrants were scheduled to expire by December 31, 2001 or March 2002 (according to their original terms) at $.50 and now become exercisable at $.10 through December 31, 2002. The fair value of this warrant on the date of extension of $429,948 has been recorded as equity, and this debt discount is being amortized to interest expense through the maturity date of the Notes. The Convertible Note offering is to close no later than March 30, 2002. As of December 31, 2001, gross proceeds of approximately $1,230,000 had been deposited, and additional signed subscription documents for approximately $559,000 had been received, for which the Company received cash in January 2002. Subsequent to December 31, 2001 the Company increased the offering by an additional $4,000,000. As of January 30, 2002, a total of approximately $3,311,000 of subscriptions and cash have been received.

During January 2002, the Company modified the terms of the 2001-D Offering so that pending the March 21, 2002 Annual Shareholder's Meeting only half of the first $3,500,000 of subcriptions may be accepted. If the Company's shareholders do not approve an increase in the authorized shares of Common Stock at the Annual Meeting, the Company will return one-half of such initial subscription. Since half of the 2001-D Notes for which the consideration was received prior to December 31 may be returned to the note holder upon the noteholder's election, the Company has reported one-half of the cash and subscriptions receivable received (approximately $896,000) prior to December 31, 2001 as a current liability in the December 31, 2001 balance sheet.

During the quarter ended December 31, 2001, the Company issued 2,969,074 shares of Common Stock in connection with the 2001-C private placement offering. Of the total of shares issued, 1,240,392 were issued for services, 743,682 for cash and 985,000 for subscriptions receivable. For each share, the Company issued a Common Stock purchase warrant to purchase one share of restricted Common Stock for $0.50 per share at any time through March 31, 2002. Combined with first quarter results, net equity increased in the amount of $1,608,852 from the sale of 3,704,576 shares. Of the gross amount, $983,077 are for services, $606,842 are cash proceeds which have been deposited by the Company, and $222,500 has been classified as a subscription receivable, which has been received in cash subsequent to December 31, 2001.

During the quarter ended September 30, 2002, the Company issued to a private investment company a $225,000 9 3/4% Convertible Debenture with a maturity date two years following issuance. The debenture may be converted into Common Stock at any time prior to maturity at a price per share equal to the lower of $1.00 or 80% of the lowest market price during the twenty trading days immediately prior to the conversion. In December 2001, the twenty trading days was amended to be two hundred seventy calendar days prior to any conversion. In addition, the investor is entitled to receive additional Common Stock purchase warrants equal to ten times the number of Common shares converted from the debenture. The investor is entitled to convert up to 6% of the original value of the debentures each month starting also during August of 2001, on a cumulative basis. Due to the significance of the beneficial conversion feature associated with this instrument, the entire amount of the proceeds of $225,000 has been allocated to equity. This discount to the face value of the debt is being amortized to interest expense over the term of the debt. During the quarter ended December 31, 2001, the investment company converted $10,000 of these debentures, resulting in issuance of 38,850 shares of Common Stock, and exercised warrants resulting in the issuance of 388,500 shares of Common Stock and generating net proceeds of $83,717.

4. Stock Options, Warrants and Purchase Rights

During the quarter ended December 31, 2001, and subject to the approval of the proposal to increase the authorized shares at the Annual Shareholder's Meeting, the Company agreed to issue an aggregate of 650,000 warrants to two consultants and one employee at $0.40 per share, which approximated the market value at the time of the grant. The warrants will vest immediately and are exercisable for a period of two years after issuance. The warrants will be issued in exchange for consulting services rendered and to be rendered in the future.

As of December 31, 2001, there were 2,276,667 options outstanding to purchase Common Stock at exercise prices ranging from $0.50 to $5.00 per share, of which 2,046,668 were vested, and 12,999,905 warrants to purchase Common Stock at exercise prices ranging from $.10 to $4.00 per share, of which all were vested.

5. Senior Note Offerings -- 1999/2000

During the quarter ended December 31, 2000, the Company exchanged a new debt instrument (2000 Senior Note) for an existing debt instrument (1999 Sernior Note). The exchange of the 1999 Senior Notes to the 2000 Senior Notes was determined to be a substantial modification of the terms of the original debt instrument and, accordingly, the Company wrote-off the unamortized debt discount and other issuance costs associated with the exchange of the 1999 Senior Notes in the amount of $863,000. Such amount has been reported as a non-cash extraordinary item in the fiscal year 2001 statement of operations.

6. Cumulative Effect of Accounting Change

During fiscal year 1999, the Company issued $4,618,000 (as adjusted) of $10,000 principal amount of Senior Notes. The Notes also included detachable equity instruments. During October 1999, the Company added a conversion feature to the Senior Notes whereby the Senior Notes were immediately convertible into Common Stock at $2.50 per share at the option of the holder. At the time of the addition of the conversion feature, the Company determined that, based on the fair value of the Company's Common Stock and specified conversion prices, and, in accordance with the then applicable accounting pronouncements, these Senior Notes did not contain an embedded conversion feature.

In November 2000, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) reached a consensus on Issue 00-27, Application of EITF Issue 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios to Certain Convertible Instruments," whereby it was concluded that an issuer should calculate the intrinsic value of a conversion option using the effective conversion price, based on the proceeds received allocated to the convertible instrument instead of the specified conversion prices in the instrument. Issue 00-27 requires companies to apply the prescribed methodology for computing the beneficial conversion feature of convertible securities through a cumulative catch-up accounting change (in the quarter that includes November 2000) for any such security issued after May 20, 1999, the effective date of EITF 98-5. Accordingly, the Company recorded a one-time, non-cash charge of $821,000 during the quarter ended December 31, 2000 to record the cumulative effect of an accounting change as required by the EITF.

7. Employment Agreement

In November 2001, the Company and Mr. Jensen agreed to reduce the percentage of shares of Common Stock to be issued to him under his Employment Agreement in the event of a USA Transaction from eight percent to seven percent of the issued and outstanding shares.

8. Subsequent Event

In November 2001, the Company agreed to issue a bonus in January 2002 to its Executive Officers. The bonus consists of 1,080,000 shares of Common Stock. In addition, subject to approval of the proposal to increase the authorized shares at the March 21, 2002 Annual Shareholder's Meeting, the Company agreed to issue 1,080,000 additional options exercisable at $.40 per share to the executive officers. The additional options are vested 75% upon issuance and 25% on March 30, 2002.

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

Forward Looking Statements

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

Results of Operations

The fiscal quarter ended December 31, 2001 resulted in a net loss of $2,462,676 compared to a net loss of $3,575,272 (including the effects of a non-cash extraordinary loss on exchange of debt of $863,000 and a non-cash cumulative effect of change in accounting principle of $821,000) for the fiscal quarter ended December 31, 2000. Losses are projected to continue until sufficient revenue is generated from equipment sales and licensing fees from the Company's proprietary technology.

Revenues were $324,882 compared to $258,242 from the previous year's fiscal quarter. This $66,640 or 26% increase was due to an increase in equipment sales of the same amount, as sales from license fees remained consistent with the December quarter of the prior year. Revenue is still well below the level required for the Company to be profitable.

Cost of sales for the period included labor and equipment of $196,998, an increase of $61,327 or 45% compared to the same period during the prior year. This increase is directly attributable to the increase in equipment sales described above.

General and administrative expenses of $1,468,237 increased by $271,647 or 23% from the same quarter last year. The increase was due principally to increases in spending for consulting and promotion services of $631,693 (of which $607,632 was non-cash), and increases in professional fees of $66,537, partially offset by decreases in spending for legal services of $208,011, primarily related to the MBE litigation which has been settled, and for outside services of $194,607.

Compensation expense of $827,720 increased by $342,274 or 71%. Non-cash compensation in the quarter was $253,845.

The interest expense decrease of $98,775 is primarily due to the capitalization of software development interest costs associated with the Company's spending to develop its e-Port(TM) network, partially offset by smaller increases in cash interest payments and the amortization of the debt discount. Depreciation expense increased from $34,349 to $81,181, largely due to an increase in the depreciable asset base.

Of the total of $2,590,560 of operating and other expenses for the quarter, $1,083,333 were non-cash expenses, primarily consulting, public relations, employee compensation, depreciation, amortization and interest.

The six month period ended December 31, 2001 resulted in a net loss of $4,702,312 compared to a net loss of $5,190,682 (including the effects of a non-cash extraordinary loss on exchange of debt of $863,000 and a non-cash cumulative effect of change in accounting principle of $821,000) for the comparable period ended December 31, 2000. Revenues were $690,629 compared to $665,001, a $25,628 or 4% increase. Of the total revenues, equipment sales totaled $365,106, an increase of $28,066 or 8%. Cost of sales of $410,031 represented an increase of $23,854, and is directly attributable to the increase in equipment sales. General and administrative expenses of $2,599,442 increased by $567,366 or 28%. The principal reason was a large increase in promotion expense, public relations, and consultant fees of $1,170,538. The increase was offset by decreases in legal fees of $390,102 mostly related to the pending MBE litigation and a reduction in outside services of $249,252. Compensation expense of $1,729,813 increased by $652,338 or 61%. Non-cash compensation was $545,895. The interest expense decrease of $140,797 is primarily due to the capitalization of software development interest costs associated with the Company's spending to develop its e-Port(TM) network.

Plan of Operations

During the quarter the Company sold e-Port terminals and network services and continued its work towards the release of the e-Port(TM) products and services. The Company also continued development of its distribution channels, strategic partnerships, and current and future customers. Current e-Port(TM) shipments include capabilities for credit card processing, tracking of vending inventory, wireless communication and reporting of this inventory data to a monitoring station. New networking and financial services capabilities currently being delivered via USALive(TM) to customers include electronic transfer of funds and transaction reports to customers. e-Port(TM) terminal and USALive network capabilities currently in development and testing and targeted for shipment to certain customers in the near future include internet capability, interactive advertising, web based transaction reporting and terminal management, and acceptance of other forms of cashless payment systems.

The Company is marketing its products through its full-time sales staff consisting of five salespeople, approximately 25 authorized resellers, and office equipment and vending OEMs, either directly to customer locations or to management companies servicing these locations. Strategic partnerships and demonstration programs with key distributors continue to be pursued and developed. Among these partnerships is the Marketing Agreement signed with IBM in June, 2001, which has already generated IBM participation in developing market strategies and in identifying specific customer opportunities with numerous Fortune 100 consumer package goods, retail, pharmaceutical and large vending companies. Applications for e-Port(TM) are believed to exist in a wide variety of point of sale locations including retail, coin operated laundromats, car wash centers, postage machine dispensers and even possibly gas pumps.

During October 2001, the Company unveiled enhancements to its e-Port(TM) and the USALive(TM) network to the vending industry at Fall NAMA, the vending industry's semi-annual trade show event. Enhancements included mobile commerce technology permitting access to vending machines through customer cell phones; proprietary wireless technology allowing for low cost, highly reliable connectivity via existing customer telephone connections; and capability for customers to manage their own e-Port locations and access vending machine data and transaction data on the web. The e-Port(TM) was demonstrated in the booths of seven different vending machine manufacturers, and the Company received sales orders for our e-Port(TM) at the show. From the inception of shipments of e-Port(TM) to date, the Company has delivered e-Ports to or taken orders from 70 separate customers, many of them on behalf of very large corporations with well-known brand names, including two Fortune 50 companies.

An investment banker has been retained by the Company to help it plan and execute the growth of the Company. We are currently working to acquire complementary technology, products, services and customers. The goal is to increase potential market applications and increase near term revenues of the Company.

Liquidity and Capital Resources

For the quarter ended December 31, 2001, there was a net increase in cash of $314,924. This was attributable to $2,216,906 of cash used in operating activities, $1,610,485 of cash used for investing activities, principally software development cost for the new e-Port(TM) network, offset by cash provided by financing activities of $4,142,315 primarily from the issuance of Common Stock, and the 2001-D note offering. The cash used in operating activities consisted of the operating loss of $4,720,312, partially offset by $1,914,241 in non cash charges from the issuance of stock and warrants, and $525,088 of non cash amortization of debt discount. As of December 31, 2001, total cash on hand was $1,132,494, and the working capital deficit was $1,507,270.

In November 2001, the Company commenced a private placement offering of $2,500,000 principal amount of 12% Convertible Senior Notes due 2004. The principal amount of each Senior Note is convertible at any time into shares of Common Stock at the rate of $.40 per share. As part of this offering, current warrant holders were incented to participate through a price reduction of some warrants and an extension of time for exercise, as related in Note 3. Because the offering was oversubscribed, in January 2002, the offering was increased to up to $6,500,000 principal amount of Senior Notes. In order to not exceed the number of currently authorized shares of Common Stock, the Company further amended the offering so that pending the consideration of the proposal to increase the authorized number of shares at the March 21, 2002 Annual Shareholder's Meeting, the Company will accept only fifty percent (50%) of the first $3,500,000 subscriptions actually received. If this proposal is approved at the Annual Meeting, the Company will accept any and all additional subscriptions received for the Senior Notes up to the authorized offering amount of $6,500,000. If the proposal is not approved, the Company will not be permitted to accept any further subscriptions for the Senior Notes. As of January 30, 2002, the Company has received subscription agreements and cash for $3,311,000 of the Senior Notes, and in accordance with the above, has accepted $1,655,500 of these subscriptions and is holding the balance pending the Annual Shareholder's Meeting. The Company has also received subscription agreements and checks (which have not been cashed) for $1,061,000.

During the quarter ended December 31, 2001, the Company deposited $371,841 as part of the 2001-C private placement offering. Combined with first quarter results, proceeds generated were $1,812,419, less offering costs of $203,567. Of the gross amount, $983,077 are for services, $606,842 are cash proceeds which have been deposited by the Company, and $222,500 has been classified as a subscription receivable, which has been received in cash subsequent to December 31, 2001.

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, which may not be readily available, 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. The Company believes that, assuming approval at the Annual Shareholder's Meeting of the proposal to increase the number of authorized Common shares, proceeds from the completion of the 2001 - D offering of Convertible Notes which might yield an additional $4.5 million, conversion of convertible debentures held by a private investment company with subsequent exercise of warrants which might yield up to $2.0 million, the potential exercise of outstanding warrants and options, plus revenues from its business, would be sufficient to fund operations and investing activities until at least through the end of the fiscal year. However, there can be no assurance that any such additional sales of securities could be made by the Company, or that its subscriptions receivable could be collected, or that increased revenues would result from its business activities. Under such circumstances, the Company may cease to be a going concern or may have to reduce its operations.

Part II - Other Information

Item 2. Changes in Securities

During the previous quarter, the Company sold a $225,000 9 3/4% Convertible Debenture with a maturity date two years following issuance, to La Jolla Cove Investors, Inc. The debenture may be converted into Common Stock at any time prior to maturity at a price per share equal to the lower of $1.00 or 80% of the lowest market price during the twenty trading days (changed to 270 calendar days) immediately prior to the conversion. In addition, the investor is entitled to receive additional Common Stock purchase warrants equal to ten times the number of common shares converted from the debenture. During this quarter, the private investment company converted $10,000 of principal and exercised related warrants for 388,500 shares receiving a total of 427,350 shares of Common Stock. The Debenture was converted at the rate of $.2574 per share and the exercise price of the warrants was $.2574 per share and was paid in cash to the Company. The shares were issued pursuant to the exemption from registration set forth in Section 4(2) of the Act. The Company has registered these shares for resale by the holder under the Act at its cost and expense.

During November, 2001, and subject to approval of the proposal to increase the authorized shares at the Annual Meeting, the Company agreed to grant to two consultants and an employee, fully vested warrants to purchase up to 650,000 shares of Common Stock at $0.40, in return for services rendered or to be rendered to the Company. The Company will issue the warrants pursuant to the exemption from registration set forth in Section 4(2) of the Act. The Company has agreed at its cost and expense to use its best efforts to register the Common Stock underlying the warrants for resale by the holder under the Act.

Through the quarter ended December 31, 2001, the Company has sold $1,812,419 in a private placement offering (the "2001-C" offering), consisting of 3,704,576 shares of restricted Common Stock and the same number of Warrants to purchase Common Stock, exercisable at $.50 per share, to accredited investors. The Company received $606,842 of cash, $222,500 of subscriptions receivable and issued the remainder for $983,077 of services rendered or to be rendered to the Company. The $1,812,419 does not include $270,000 of subscriptions from the executive officers which were satisfied through a bonus in January 2002. The securities were issued pursuant to the exemption from registration set forth in Section 4(2) of the Act and Rule 506 promulgated thereunder. The Company has registered the Common Stock as well as the Common Stock underlying the warrants for resale by the holder under the Act.

During the quarter, the Company initiated a private placement offering (the "2001-D" offering), consisting of up to $2,500,000 (later revised to $6,500,000) principal of 12% Convertible Senior Notes due December 31, 2004. Each Senior Note is convertible into Common Stock at $.40 per share, and interest is payable quarterly. The offering is to close no later than March 30, 2002. As of December 31, 2001, gross proceeds of approximately $1,230,000 had been deposited. The Notes were issued pursuant to the exemption from registration set forth in Section 4(2) of the Act. The Company has agreed at its cost and expense to use its best efforts to register the Common Stock underlying the Notes for resale by the holder under the Act. As of January 30, 2002, a total of approximately $3,311,000 cash subscriptions have been received and pending the Annual Meeting, the Company has accepted $1,655,500 of these subscriptions.

During the quarter, 117,300 shares of Common Stock were issued to certain 12% Senior Note Holders, in lieu of cash payment, for interest earned on the Notes during the quarter. Such Note holders elected to receive Common Stock at the rate of one share per $0.50 of interest earned. Such shares of Common Stock were issued pursuant to the exemption from registration set forth in Section 3(a)(9) of the Act.

During October 2001, the Company agreed to issue 200,000 shares to Ratner & Prestia, P.C., an accredited investor. The offering did not involve any general advertising or solicitation, and was therefore exempt from registration under Section 4(2) of the Act. The proceeds from the sales of the shares will be applied by Ratner & Prestia towards the unpaid professional fees due to them by the Company. The Company has registered these shares for resale under the Act.

During the quarter, La Jolla Cove Investors, Inc. exercised warrants to purchase 500,000 shares under warrants granted to it by the Company in July 2001. The warrants were exercised for a cash payment of approximately $.29 per share. The shares were issued pursuant to the exemption from registration set forth in Section 4(2) of the Act. The Company has registered these shares for resale under the Act.

During November 2001, the Company reduced the exercise price of warrants to purchase up to 100,000 shares from $2.00 per share to $.40 per share and agreed to register these shares for resale under the Act. The warrants had been issued to a consultant and expire in June 2002.

In November 2001, and subject to the approval at the Annual Shareholder's Meeting of the proposal to increase the number of authorized shares, the Company agreed to issue the following options to purchase an aggregate of 1,080,000 shares to its executive officers: George R. Jensen, Jr. - 320,000 options; Stephen P. Herbert - 300,000 options; Haven Brock Kolls 200,000 options; Leland Maxwell - 130,000 options; and Michael Lawlor - 130,000 options. Each option is exercisable at $.40 per share at any time following vesting and on or before June 30, 2003. The options vest three-quarters immediately upon issuance and the balance on March 30, 2002. The securities will be issued pursuant to the exemption from registration set forth in Section 4(2) of the Act. The Company has agreed at its cost and expense to register for resale under the Act all of the shares underlying these options.

The following executive officers had signed subscription agreements but had not paid the amounts due thereunder to the Company in connection with the private placement offering of Common Stock and 2001-C Warrants that closed in October 2001: George R. Jensen, Jr. - $160,000; Stephen P. Herbert - $150,000; Haven Brock Kolls - $100,000; Leland P. Maxwell - $75,000; and Michael Lawlor - $75,000. For each $10,000 subscribed for in the offering, the subscriber is entitled to receive 10,000 shares and warrants to purchase up to 10,000 shares at $.50 per share. As detailed in the next paragraph, in January 2002, the shares of Common Stock subscribed for as well as all of the shares of Common Stock underlying the 2001-C Warrants subscribed for were issued to the executive officers by the Company as a bonus.

In November 2001, the Company approved a bonus payable in January 2002 to the executive officers, as follows: George R. Jensen, Jr. - 320,000 shares; Stephen P. Herbert - 300,000 shares; Haven Brock Kolls - 200,000 shares; Leland P. Maxwell - 130,000 shares; and Michael Lawlor - 130,000 shares. These shares represented all of the Common Stock issuable pursuant to the subscription agreements entered into by these executive officers referred to above as well as all of the Common Stock underlying all of the 2001-C Warrants subscribed for by them. In connection with the issuance of the shares, the executive officers were not required to pay any amounts due under the subscription agreements or any of the amounts due for the exercise price of the 2001-C Warrants. The shares were issued pursuant to the exemption from registration set forth in Section 4(2) of the Act. The Company has agreed at its cost and expense to register all of these shares for resale under the Act.

In November 2001, the Company and Mr. Jensen agreed to reduce the percentage of shares to be issued to him under his Employment Agreement in the event of a USA Transaction from eight percent to seven percent of the issued and outstanding shares.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits. None.

(b) Reports on Form 8-K.

None.

Signatures

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

USA TECHNOLOGIES, INC.

Date: February 19, 2002	/s/ George R. Jensen, Jr.
	George R. Jensen, Jr., Chairman, Chief Executive Officer
Date: February 19, 2002	/s/ Leland P. Maxwell
	Leland P. Maxwell, Senior Vice President, Chief Financial Officer