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 September 30, 1996

( ) 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.

Pennsylvania	23-2679963
(State 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 November 8, 1996, there were 23,023,976 shares of Common Stock, no par value, and 796,025 shares of Series A Convertible Preferred Stock, no par value, outstanding.

This document is comprised of 14 pages.

USA TECHNOLOGIES, INC.

INDEX

USA Technologies, Inc.
(A Development Stage Corporation)

Balance Sheets

	September 30, 1996	June 30, 1996
ASSETS:		
Current Assets:	(Unaudited)	
Cash	$1,037,335	$1,773,356
Trade receivables	17,517	-
Inventory	548,259	426,391
Stock subscriptions receivable	-	106,350
Prepaid expenses and deposits	4,237	3,614
Total current assets	1,607,348	2,309,711
Property and equipment,at cost,net	240,666	235,214
Other Assets	4,028	42,446
Total assets	$1,852,042	$2,587,371
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$163,223	$301,849
Accrued expenses	104,857	41,559
Capital lease obligation	19,968	9,048
Total current liabilities	288,048	352,456
Obligation under Capital lease,less current portion	36,130	21,209
Accrued rent	-	13,516
Total liabilities	324,178	387,181
Shareholders' equity:		
Preferred stock, no par value:		
Authorized shares -1,000,000		
Series A Convertible issued and outstanding shares - 796,025 at September 30, 1996 and June 30, 1996 (Liquidation preference of $10,357,385 at September 30, 1996)	6,776,132	6,776,132
Common stock, no par value:		
Authorized shares - 45,000,000		
Issued and outstanding shares - 23,023,976 at September 30, 1996 and June 30, 1996	2,720,201	2,720,201
Deficit accumulated during the development stage	(7,968,469)	(7,296,143)
Total shareholders' equity	1,527,864	2,200,190
Total liabilities and shareholders' equity	$1,852,042	$2,587,371

(See accompanying notes)

USA Technologies, Inc.
(A Development Stage Corporation)

Statements of Operations

	Three months ended September 30, 1996 (Unaudited)	Three months ended September 30, 1995 (Unaudited)	Date of Inception Through September 30, 1996 (Unaudited)	Date of Inception Through June 30, 1996
Revenue:				
Equipment sales	$18,891	$	$18,891	$ -
License fee income	20,244	9,798	83,902	63,658
Interest income	12,003	11,072	65,407	53,404
Total revenue	51,138	20,870	168,200	117,062
Costs and expenses:				
Cost of goods sold	9,229	-	9,229	-
General and administrative	420,055	281,606	3,285,578	2,865,523
Compensation	238,104	257,494	2,703,880	2,465,776
Depreciation and amortization	23,261	5,106	121,655	98,394
Advertising	31,005	16,323	384,007	353,002
Provision for losses on equipment	-	-	400,715	400,715
Interest	1,810	340	128,421	126,611
Costs incurred in connection with abandoned private placement	-	-	50,000	50,000
Total costs and expenses	723,464	560,869	7,083,485	6,360,021
Net loss	(672,326)	(539,999)	(6,915,285)	(6,242,959)
Cumulative preferred dividends	(597,019)	(477,150)		
Loss applicable to common shares	($1,269,345)	($1,017,149)		
Loss per common share	($0.07)	($0.08)		
Weighted average number of common shares outstanding	18,658,976	12,354,333		

(See accompanying notes)

USA Technologies, Inc.
(A Development Stage Corporation)

Statement of
Shareholders Equity

	Series A Convertible Preferred Stock	Common Stock	Deficit Accumulated During the Development Stage	Total
Balance, June 30, 1996	$6,776,132	$2,720,201	($7,296,143)	$2,200,190
Net loss			(672,326)	($672,326)
	----------	----------	-----------	----------
Balance, September 30, 1995 (Unaudited)	$6,776,132	$2,720,201	($7,968,469)	$1,527,864
	==========	==========	===========	==========

(See accompanying notes)

USA Technologies, Inc.
(A Development Stage Corporation)

Statements of Cash Flows

	Three months ended September 30,	
	1996	1995
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Net loss	($672,326)	($539,999)
Adjus(TM)ents to reconcile net loss to net cash used by operating activities:		
Depreciation/amortization	23,261	5,106
Compensation charges incurred in connection with the issuance of Common Stock	-	50,000
Changes in operating assets and liabilities:		
Trade receivables	(17,517)	
Inventory	(121,868)	
Prepaid expenses, deposits, and other assets	37,645	25,655
Accounts payable	(138,626)	(103,115)
Accrued expenses	49,782	4,777
Net cash used by operating activities	(839,649)	(557,576)
INVESTING ACTIVITIES		
Purchase of property and equipment	(2,722)	(286,907)
Proceeds from sale of property and equipment	-	51,000
Net cash used by investing activities	(2,722)	(235,907)
FINANCING ACTIVITIES		
Repayment of note payable	-	(1,778)
Net proceeds from issuance of common stock	106,350	9,000
Net proceeds from issuance of preferred convertible stock	-	1,441,185
Net cash provided by financing activities	106,350	1,448,407
Net (decrease)increase in cash	(736,021)	654,924
Cash at beginning of period	1,773,356	376,191
Cash at end of period	$1,037,335	$1,031,115
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Capital lease obligation	$25,841	-

(See accompanying notes)

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

1. Business

USA Technologies, Inc. a Pennsylvania corporation (the "Company"), was incorporated on January 16, 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 intends to become the leading owner and licenser of credit card activated control systems for the vending, copying, debit card, and personal computer industries. The Company's products make available credit card payment technology in connection with the sale of a variety of products and services.

The Company generally sells the control system equipment directly to the location service provider or through authorized dealers. Concurrent with the sale of equipment, locations are required to execute a software licensing and transaction processing agreement with the Company.

In connection with it's control systems, the Company generally retains eight percent of the gross revenues, depending upon the level of services provided by the Company. To date the total gross revenues received by the Company from these systems has been nominal.

2. Accounting Policies

Interim Financial Information

The financial statements and disclosures included herein for the three months ended September 30, 1996 and 1995, and for the date of inception through September 30, 1996 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 it's 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 five to seven years for financial statement purposes and accelerated methods for income tax reporting purposes.

Revenue Recognition

Licensing revenues are recognized upon the usage of the Company's credit card activated control systems. Revenue from the sale of equipment is recognized upon installation and customer acceptance.

Loss per Common Share

Loss per common share is based on the weighted average number of common shares outstanding during the periods. No exercise of stock options, purchase rights, purchase warrants, or the conversion of preferred stock and cumulative preferred dividends was assumed because the exercise of these securities would be antidilutive. The 4,365,000 common shares held in escrow (Note 5) are not considered outstanding for purposes of calculating the loss per common share for all periods presented.

3. Stock Transactions

In August 1996, the Company authorized the issuance of 265,000 shares of Common Stock to two consultants. The Company issued and registered these shares in October 1996 under the Act and such shares are freely tradeable thereunder.

4. Stock Options

In September 1996, the Company granted to an employee options to purchase up to 50,000 shares of Common Stock at $.45 per share. In November 1996, the Company granted to an employee options to purchase up to 50,000 shares of Common Stock at $.65 per share and to a consultant option to purchase up to 50,000 shares of Common Stock at $.50 per share. As of September 30, 1996, there was a total of 2,885,000 options outstanding at exercise prices ranging from $.05 to $.25 per share, of which 2,760,000 were exercisable. All of the options granted were issued at or above fair market value on the date of grant.

5. Escrow and Cancellation Arrangements

At the request of the Pennsylvania Securities Commission, all of the executive officers and directors of the Company serving at the commencement of the initial public offering of the Company agreed to place in escrow 10,700,000 shares of Common Stock (subsequently amended to 8,603,675 by the cancellation of 2,305,000 shares by the President of the Company during June 1995 and February 1996 and the addition of 208,675 shares by officers and directors in August 1995, February 1996, and May 1996) beneficially owned by them until December 29, 1996. Under certain circumstances as outlined by the Pennsylvania Securities Commission, the President's shares may be held in escrow for an additional period of time, but not later than June 30, 1998. Any additional shares of Common Stock acquired by the executive officers and directors will also be held in escrow. The executive officers and directors have agreed not to sell, pledge, or transfer, directly or indirectly, any of the Common Stock held in escrow or any options to acquire stock they may own. Additionally, the President of the Company has agreed that 4,365,000 shares of his escrowed Common shares would be canceled by the Company and would no longer be issued and outstanding unless certain performance measures as specified by the Commission are achieved. If the performance measures are achieved, the common shares released from escrow will result in a compensatory charge to the Company's operations. The charge will be based on the fair value of the Company's common shares on the date the shares are released from escrow. During the three months ended September 30, 1996, there was no such charge to operations. The 4,365,000 shares are not considered outstanding for purpose of calculating the loss per common share for all periods presented.

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

Introduction

Since its inception in January 1992, the Company, a development stage corporation, has been engaged almost exclusively in research and development activities focused on designing, developing, and marketing its credit card activated control systems. From inception through September 30, 1996, the Company has had nominal operating revenues and has generated funds primarily through the sale of its securities. As of September 30, 1996 the Company has received, net of expenses of such sales, the amount of $4,367,085 in connection with private placements $1,105,800 from the exercise of Common Stock purchase warrants, and $2,345,104 in connection with its initial public offering. The Company has incurred operating losses since its inception resulting in an accumulated deficit of $7,968,469 at September 30, 1996 and such losses are expected to continue into fiscal 1997.

Results of Operations

The fiscal quarter ended September 30, 1996 resulted in a net operating loss of $672,326 compared to a net loss of $539,999 for the comparable fiscal quarter ended September 30, 1995. On an overall basis these continuing and increasing 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.

Revenue from operations was $51,138 compared to $20,870 from the previous year's fiscal quarter. This is also the first period to reflect the Company's revised strategy of selling its proprietary equipment as opposed to relying solely on licensing and transaction processing revenues. Equipment sales totaled $18,891. Licensing and processing revenue increased to $20,244 from $9,798 for the same period in 1995. Despite this modest increase and change in approach to the market, revenue is still well below the level required to be profitable.

Expenses for the period were $723,464 which represents an increase over the prior year of $162,595 or 28%. Generally this increased expense level reflects continuing developmental activity for the Company's newest product offering, the Business Express(TM), as well as the associated costs of market introduction. The major contributors to the increased expense level are discussed below.

General and administrative expenses of $420,055 increased by $138,449 or 49.2%. The increase in this expense category was concentrated in the following areas: Product Development increased by $78,448 and Travel Expense increased by $55,882, both of which resulted directly from the development and introduction of the Business Express(TM). In addition, Professional Fees increased by $20,294, and Rent increased by $9,082 primarily due to the accrual of continuing rent expense on the Company's former leased facilities.

Compensation expense of $238,104 decreased by 7.5% due to temporary fluctuations in staffing levels and sales commission payments.

Depreciation increased from $5,106 to $23,261 reflecting the increased depreciable capital asset base.

Advertising increased from $16,323 to $31,005 as a result of the promotional expense related to the introduction of the Business Express(TM).

Plan of Operations

As of October 15, 1996, the Company had a total of 155 credit card activated control systems installed in the filed as follows:

Credit Card Copy Express(TM) 73, Credit Card Debit Express(TM) 26, Credit Card Computer Express(TM) 49, Fax Express(TM) 2, and Business Express(TM) 5. In July 1996, the licensing arrangement with the apparel manufacturer operating the Vending Express(TM) equipment was terminated by the manufacturer effective September 30, 1996. Through September 30, 1996 the total gross revenues received by the Company from these systems has been nominal.

During the past year the Company has refined its direction on new product development. It has shifted its emphasis to products capable of generating new incremental revenue for equipment operators (ie. Computer Express(TM), Business Express(TM), Automated Printer Payment System(TM)) as opposed to in the past simply providing a better method of payment (ie. Copy Express(TM)).

The Company introduced the Business Express(TM) in November 1996. Development is complete and there are currently six sites in operation. The marketing and sales function has been increased to four direct sales representatives and four dealers in anticipation of the national roll out.

Another significant change in direction has been the move toward the sale of the Company's proprietary equipment to operators rather than the revenue sharing arrangements employed to date. The Company still retains all rights to software and proprietary technology which it licenses to location operators for their exclusive use. However this shift in market approach reduces the Company's dependancy on equipment revenue by providing a built in gross profit on the sale of the equipment, and simultaneously reduces the Company's capital asset requirements.

Plans for the coming fiscal year include progressing from the development stage to an operating mode. The Company relocated to a 7000 square foot "flex space" type facility which will provide assembly and warehousing space to support the roll out of the Business Express(TM). The Business Express(TM), will be assembled at the Company's new facility and then shipped direct for site installation by Company personnel.

Liquidity and Capital Resources

During the fiscal quarter ended September 30, 1996, the Company utilized a total of $736,021 of cash as a result of sustaining a $672,326 operating loss. The balance of cash used is attributable to working capital changes and financing activities. As of September 30, 1996, total cash on hand was $1,037,335. At the current level of operations, and without an increase in revenue, the Company has sufficient resources to continue operations for an additional five months or through February 1997.

The Board of Directors has taken the necessary steps to provide for additional equity capital by approving a reduction in the exercise price of Common Stock warrants issued in 1996. Effective November 1, 1996 the exercise price was reduced to $.25 per share on 5,200,000 Common Stock warrants issued in 1996. This would result in net proceeds to the Company of $1,300,000 on a fully exercised basis.

Part II - Other information

Items 1,2,3, and 5 are not applicable.

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

None

Signature

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: November 12, 1996	/s/ George R. Jensen, Jr.
	George R. Jensen, Jr., President, Chief Executive Officer
Date: November 12, 1996	/s/ Edward J. Sullivan
	Edward J. Sullivan, Senior Vice President, Chief Financial Officer

5
0000896429
USA TECHNOLOGIES, INC.
1,000
US DOLLARS

3-MOS
JUN-30-1997
JUL-01-1996
SEP-30-1996
1.000
1,037,335
0
17,517
0
548,259
1,607,348
336,338
95,672
1,852,042
288,048
0
0
6,776,132
2,720,201
0
1,852,042
18,861
51,138
9,229
723,464
0
0
1,810
(672,326)
0
(672,326)
0
0
0
(672,326)
(0.07)
(0.07)