

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 1997

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 No

As of November 5, 1997, there were 35,953,787 shares of Common Stock, no par
value, and 711,065 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

	September 30, 1997 ----- (Unaudited)	June 30, 1997 -----
ASSETS:		
Current Assets:		
Cash and cash equivalents.....	\$ 302,343	630,266
Accounts receivable less allowance for uncollectible accounts of \$19,155 at September 30, 1997 (unaudited) and \$19,345 at June 30, 1997.....	213,420	127,318
Inventory.....	393,255	378,318
Stock subscriptions receivable.....		60,000
Prepaid expenses and deposits.....	22,260	15,670
	-----	-----
Total current assets.....	931,278	1,211,572
Property and equipment, at cost, net of accumulated depreciation of \$200,326 at September 30, 1997 (unaudited) and \$174,829 at June 30, 1997.....	152,960	178,457
Other assets.....	23,950	20,250
	-----	-----
Total assets.....	\$ 1,108,188	1,410,279
	=====	=====
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 412,885	474,646
Accrued expenses.....	134,797	46,742
Current obligations under capital leases.....	18,679	18,270
	-----	-----
Total current liabilities.....	566,361	539,658
Obligations under capital leases, less current portion...	19,876	24,480
	-----	-----
Total liabilities.....	586,237	564,138
 Shareholders' equity:		
Preferred stock, no par value:		
Authorized shares - 1,200,000		
Series A Convertible issued and outstanding shares - 729,985 at September 30, 1997 (unaudited) and 861,205 at June 30, 1997 (Liquidation preference of \$10,254,083 at September 30, 1997 - unaudited).....	5,954,463	7,024,811
Common stock, no par value:		
Authorized shares - 55,000,000		
Issued and outstanding shares - 33,503,701 at September 30, 1997 (unaudited) and 29,969,934 at June 30, 1997.....	6,290,023	4,355,334
Deficit accumulated during the development stage.....	(11,722,535)	(10,534,004)
	-----	-----
Total shareholders' equity.....	521,951	846,141
	-----	-----
Total liabilities and shareholders' equity.....	\$ 1,108,188	1,410,279
	=====	=====

(See accompanying notes)

USA Technologies, Inc.
(A Development Stage Corporation)

Statements of Operations

	Three months ended September 30		Date of Inception Through	
	1997	1996	September 30, 1997	June 30, 1997
	(Unaudited)	(Unaudited)	(Unaudited)	
Revenues:				
Equipment sales.....	\$310,311	\$18,891	\$800,925	\$490,614
License fees.....	44,102	20,244	224,918	180,816
Other	9,342	133	9,342	0
	363,755	39,268	1,035,185	671,430
Expenses:				
Cost of sales.....	292,640	13,751	817,730	525,090
General and administrative.....	401,137	446,671	5,659,825	5,258,688
Compensation.....	307,217	238,104	3,853,451	3,546,234
Depreciation and amortization.....	25,497	23,261	221,141	195,644
Provision for losses on equipment	-	-	400,715	400,715
Costs incurred in connection with abandoned private placement.....	-	-	50,000	50,000
Interest expense (income)	(2,212)	(10,193)	56,518	58,730
	1,024,279	711,594	11,059,380	10,035,101
Net loss.....	(660,524)	(672,326)	(10,024,195)	(9,363,671)
Cumulative preferred dividends	(903,274)	(597,019)	=====	=====
Loss applicable to common shares...	(\$1,563,798)	(\$1,269,345)		
	=====	=====		
Loss per common share.....	(\$0.06)	(\$0.07)		
	=====	=====		
Weighted average number of common shares outstanding.....	27,287,669	18,658,976		
	=====	=====		

(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)	-
Net loss.....			(660,524)	(660,524)
Balance, September 30, 1997	<u>\$5,954,463</u>	<u>\$6,290,023</u>	<u>(\$11,722,535)</u>	<u>\$521,951</u>

(See accompanying notes)

USA Technologies, Inc.
(A Development Stage Corporation)

Statements of Cash Flows

	Three months ended September 30,	
	1997	1996
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Net loss.....	(\$660,524)	(\$672,326)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation/amortization.....	25,497	23,261
Compensation charges incurred in connection with the issuance of Common Stock.....	14,355	-
Changes in operating assets and liabilities		
Trade receivables.....	(86,102)	(17,517)
Inventory.....	(14,937)	(121,868)
Prepaid expenses, deposits, and other assets.....	(10,290)	37,645
Accounts payable.....	(61,761)	(138,626)
Accrued expenses.....	88,055	49,782
	-----	-----
Net cash used by operating activities.....	(705,707)	(839,649)
INVESTING ACTIVITIES		
Purchase of property and equipment.....	-	(2,722)
	-----	-----
Net cash used by investing activities	-	(2,722)
FINANCING ACTIVITIES		
Net proceeds from issuance of common stock.....	381,979	106,350
Net proceeds from issuance of convertible preferred stock.....	-	-
Repayment of principal on capital lease obligations.....	(4,195)	-
	-----	-----
Net cash provided by financing activities ...	377,784	106,350
Net (decrease) in cash and cash equivalents..	(327,923)	(736,021)
Cash and cash equivalents at beginning of period.....	630,266	1,773,356
	-----	-----
Cash and cash equivalents at end of period...	\$302,343	\$1,037,335
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASHFLOW INFORMATION:		
Capital lease obligations	-	\$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 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.

As of September 30, 1997, the Company had a total of 364 control systems in the field, distributed as follows: 209 Business Express(TM) control systems, 42 Copy Express(TM) control systems, 36 Debit Express(TM) control systems, 20 Fax/Printer Express(TM) control systems, and 57 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 months ended September 30, 1997 and 1996, and for the date of inception through September 30, 1997 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.

Basis of Presentation

Certain amounts in the 1996 financial statements have been reclassified to conform with the current period presentation.

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

Loss per common share is calculated based on the weighted average number of common shares outstanding during the periods. 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. The President's 4,365,000 common shares held in escrow (Note 4) are not considered outstanding for purposes of calculating the loss per common share for all periods presented.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings per Share, which is required to be adopted on December 31, 1997. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The impact of Statement No, 128 on the calculation of the Company's primary and fully diluted earnings per share is not expected to be material.

3. Stock Options and Purchase Rights

As of September 30, 1997, there was a total of 157,300 Common Stock purchase rights outstanding at a price of \$1.00 per share. As of September 30, 1997 there was a total of 3,951,000 options outstanding to purchase Common Stock at exercise prices ranging from \$.25 to \$.50 per share, of which 3,338,500 were vested. All of the options and purchase rights granted were issued at or above fair market value on the date of grant.

During September, 1997, 70,000 Common Stock options were exercised at \$.05 per option and, accordingly, the Company received \$3,500 in gross proceeds.

4. Escrow and Cancellation Arrangements

At the request of the Pennsylvania Securities Commission, the President agreed to place in escrow 7,593,000 shares, as adjusted. The President's shares may be held in escrow through June 30, 1998. Additionally, the President of the Company has agreed that 4,365,000 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 by June 30, 1998. 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 quarters ended September 30, 1997 and 1996, there was no such charge to operations. The 4,365,000 shares of Common Stock owned by the President and subject to cancellation are not considered outstanding for purposes of calculating the loss per common share for all periods presented.

5. Joint Venture

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 shall exclusively sell and market 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. The gross profits from any sales of the MBE Business Express(TM) are to be shared by the Company and MBE. In addition, other revenues resulting from activities relating to the MBE Business Express(TM), such as electronic commerce, licensing, marketing and advertising, are to be split equally between MBE and the Company. MBE has agreed not to sell, use, endorse, approve, or purchase any unattended, credit card activated technology or terminals other than those offered by the Company for use in connection with the equipment included in the MBE Business Express(TM). The Company and MBE will agree from time to time on an advertising and marketing budget which would cover anticipated expenses for trade shows, trade advertising, direct mail, telemarketing, national account coverage, merchandising, market research and lead generation. All such expenses would be split equally between the Company and MBE. The Company is to act as the merchant for all MBE Business Express(TM) business centers and will receive a monthly service fee for each terminal. The initial term of the joint venture is five years. If certain sales goals are not met by the joint venture, the Company may terminate the exclusivity provisions of the agreement after the second year.

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

MBE has ordered 195 TransAct(TM) control boxes from the Company to be used by MBE franchisees for their in-store computer workstations (computer and printer). The Company will act as the merchant in connection with credit card sales and will receive a monthly service fee for each terminal. Through September 30, 1997, none of these control boxes have been shipped. Through November 5, 1997, 39 of these control boxes have been shipped, and the Company anticipates that the remainder of the 195 control boxes will be shipped prior to the end of November, 1997.

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 September 30, 1997, the Company has had operating revenues of approximately \$1 million and has generated funds primarily through the sale of its securities. As of September 30, 1997, the Company has received, net of expenses of such sales, the amount of \$5,487,636 in connection with private placements, \$2,063,887 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 through September 30, 1997 of \$10,024,195 and such losses are expected to continue at least through June 30, 1998.

Results of Operations

The fiscal quarter ended September 30, 1997 resulted in a net operating loss of \$660,524 compared to a net loss of \$672,326 for the comparable fiscal quarter ended September 30, 1996. 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.

Revenue from operations was \$363,755 compared to \$39,268 from the previous year's fiscal quarter. This \$324,487 improvement reflects the Company's revised strategy during fiscal year 1997 of selling its proprietary equipment as opposed to relying primarily on licensing and transaction processing revenues. Of the total revenues, equipment sales totaled \$310,311, an increase of \$291,420 over the same period last year. Licensing and processing revenue increased to \$44,102 from \$20,244 for the same period during the prior year, an increase of 118%. Despite this modest increase and change in approach to marketing its products, 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 \$292,640 which represented an increase of \$278,889 over the same period during the prior year, and is directly attributable to the increase in equipment sales.

General and administrative expenses of \$401,137 decreased by \$45,534 or 10.2% from the first quarter last year. Reduced travel and entertainment and rent contributed to the decrease.

Compensation expense of \$307,217 increased by 29% due to permanent and higher staffing levels in Sales and Operations. Depreciation and amortization expense increased from \$23,261 to \$25,497 reflecting the increased depreciable capital asset base.

Plan of Operations

As of September 30, 1997 the Company had a total of 364 credit card activated control systems installed in the field as follows: Business Express(TM) 209, Copy Express(TM) 42, Debit Express(TM) 36, Public PC (formerly Credit Card Computer Express(TM)) 57, Fax/Printer Express(TM) 20. The total gross 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 year the Company has refined its direction on new product development. It has shifted its emphasis toward the sale 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 completed development of the Business Express(TM) in August 1996 and as of September 30, 1997 had 63 sites in operation containing 209 of the Company's control systems. 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 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 shall exclusively sell and market 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. In addition, MBE has ordered 195 TransAct(TM) control boxes from the Company to be used by MBE franchises for their in-store computer workstations. As of November 5, 1997, 39 of these control boxes have been shipped.

Liquidity and Capital Resources

For the three month period ended September 30, 1997, there was a net decrease in cash of \$327,923. This was attributable to using \$705,707 for operating activities, partially offset by \$381,979 net proceeds raised through the issuance of Common Stock. As of September 30, 1997, total cash on hand was \$302,343; working capital was approximately \$357,541 of which \$393,255 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 Warrants at \$.20 through September 30, 1997 (rather than only through August 31, 1997 as previously provided). During the quarter ended September 30, 1997, 224,000 1996-B and 1,529,200 1997 Common Stock purchase warrants were exercised for gross proceeds to the Company of \$350,640. On November 13, 1997, the Company's Board of Directors decided to maintain the exercise price of the 1996-B and 1997 Common Stock Warrants at \$.20 through October 31, 1997 (rather than September 30, 1997 as revised above). Through October 31, 1997, exercise of 1996-B and 1997 Common Stock purchase warrants provided additional gross proceeds of \$39,960 to the Company.

On September 11, 1997, the Board of Directors approved a reduction in the exercise price of the 1995 and 1996 Common Stock warrants from \$.50 to \$.25 during the period of September 11, 1997 through October 31, 1997. This resulted in the exercise of 40,000 1996 Common Stock purchase warrants for gross proceeds to the Company of \$10,000 during the quarter ended September 30, 1997. From October 1, 1997 to October 31, 1997, exercise of 1995 and 1996 Warrants provided additional gross proceeds of \$214,938 to the Company.

The Company believes that the above warrant proceeds, together with money available from the exercise of options and warrants, and increased revenues from its business would be sufficient to fund operations through June 30, 1998. There can be no assurance that 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, 4, and 6 are not applicable.

Item 2. Unregistered Equity Securities Sold by the Registrant

During September 1997, the holder of options exercised such options for 70,000 shares of Common Stock at \$.05 per share for an aggregate purchase price of \$3,500. Such shares of Common Stock are restricted securities under the Act and were issued under the exemption from registration set forth in Section 4(2) of the Act.

Item 5. Other Information

During the quarter ended September 30, 1997, the holders of \$430,000 of the \$500,000 of Convertible Securities which were issued by the Company in June 1997 converted their Convertible Securities into 1,568,517 shares of Common Stock, and \$70,000 of Convertible Securities remain outstanding.

In connection with the issuance of such Convertible Securities, the Company had issued 2,500,000 shares of Common Stock in escrow so that such shares would be available to the holders of the Convertible Securities upon conversion thereof. Following the conversions referred to above, an aggregate of 350,000 shares remain in escrow.

At June 30, 1997, all 2,500,000 shares held in escrow were considered issued and outstanding as Common Stock.

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: November 14, 1997

/s/ George R. Jensen, Jr.

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

Date: November 14, 1997

/s/ Leland P. Maxwell

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

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USA TECHNOLOGIES, INC
1,000
US DOLLARS

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