

As filed with the Securities and Exchange Commission on October 7, 1997

Registration No. 33-98808

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 5

TO
FORM SB-2

Registration Statement
Under

The Securities Act of 1933

USA TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in its Charter)

Pennsylvania

7359

23-2679963

(State or other
jurisdiction of
incorporation or
organization)

(Primary Standard Industrial
Classification Code Number)

(I.R.S. employer
Identification No.)

200 Plant Avenue
Wayne, Pennsylvania 19087
(Address of principal executive offices and zip code)

George R. Jensen, Jr.
Chief Executive Officer
USA Technologies, Inc.
200 Plant Avenue
Wayne, Pennsylvania 19087
(610) 989-0340
(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Copies to:

Douglas M. Lurio, Esquire
Lurio & Associates
1760 Market Street, Suite 1300
Philadelphia, PA 19103-4132
(215) 665-9300

Approximate date of proposed sale to the public: From time to time
after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered
pursuant to dividend or interest reinvestment plans, check the
following box: []

If any of the securities being registered on this Form are to be offered on
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of
1933, other than securities offered only in connection with dividend or interest
reinvestment plans, check the following box: [X]

If this Form is filed to register additional securities for an offering
pursuant to Rule 462(b) under the Securities Act of 1933, please check the
following box and list the Securities Act registration statement number of the
earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If the delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. []

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

USA TECHNOLOGIES, INC.

COMMON STOCK

This Prospectus relates to up to 5,100,000 shares of Common Stock, no par value (the "Common Stock"), of USA Technologies, Inc. (the "Company") which may be sold from time to time by the shareholders of the Company (the "Selling Shareholders") who purchased 1995 Common Stock Purchase Warrants (the "1995 Warrants") from the Company. The 1995 Warrants were issued pursuant to a warrant agreement dated as of June 21, 1995, by and between the Company and American Stock Transfer & Trust Company, the warrant agent (the "1995 Warrant Agreement").

The Common Stock which may be sold by the Selling Shareholders pursuant to this Prospectus will be purchased from the Company by the Selling Shareholders pursuant to the exercise of the 1995 Warrants. The Company issued 5,100,000 1995 Warrants to the Selling Shareholders in June and July 1995 pursuant to the 1995 Warrant Agreement in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the "Act"), and applicable state securities law. Each 1995 Warrant entitles the holder thereof to purchase one share of Common Stock for \$.25 at any time through October 31, 1997, and for \$.50 at any time thereafter through January 31, 2001. The exercise price of the 1995 Warrants may be reduced by the Company at any time, or from time to time. As more fully discussed below, through the date hereof, 3,686,000 1995 Warrants have been exercised at a reduced price. The 1995 Warrants are exercisable at any time through January 31, 2001, or such later date as the Company may determine. The Company agreed, at its cost and expense, to register under the Act the Common Stock underlying the 1995 Warrants for resale by the Selling Shareholders, and to use its best efforts to register or qualify such Common Stock for resale under applicable state securities laws. See "Description of Securities - 1995 Common Stock Purchase Warrants." The Common Stock may be sold from time to time by the Selling Shareholders named herein pursuant to this Prospectus. See "Selling Shareholders".

As a condition to obtaining the Common Stock being offered hereby, the Selling Shareholders must exercise the 1995 Warrants by tendering the per share exercise price required under the 1995 Warrant Agreement. Through June 30, 1997, the 1995 Warrants were exercised for a total of 3,686,000 shares of Common Stock which generated gross proceeds to the Company of \$1,105,800. All of such 1995 Warrants were exercised at \$.30 per share of Common Stock. If all of the remaining 1,414,000 1995 Warrants are exercised at \$.25 per share, the Company would receive gross proceeds of \$353,500. If the 1995 Warrants are exercised at a price less than \$.25, the gross proceeds received by the Company would be reduced. There is no assurance that any or all of the remaining 1995 Warrants will be exercised by the Selling Shareholders, and if none of the 1995 Warrants are exercised, the Company would not receive any gross proceeds. The Company is responsible for all of the costs and expenses incident to the offer and sale of the Common Stock by the Selling Shareholders pursuant to this Prospectus other than any brokerage fees or commissions incurred by the Selling Shareholders

in connection therewith.

The Common Stock offered by the Selling Shareholders pursuant to this Prospectus may be sold from time to time by the Selling Shareholders. The sale of the Common Stock offered hereby by the Selling Shareholders may be effected in one or more transactions that may take place on the over-the-counter market, including ordinary brokers' transactions, privately negotiated transactions or through sales to one or more dealers for resale of such securities as principals. Usual and customary or specifically negotiated brokerage fees or commissions may be paid by the Selling Shareholders.

The Company will not receive any of the proceeds from the sale of the Common Stock by the Selling Shareholders. The Selling Shareholders will receive all of the net proceeds from the sale of the Common Stock and will pay all selling commissions, if any, applicable to the sale of the Common Stock.

The Common Stock is currently traded on the OTC Electronic Bulletin Board under the symbol USTT and the closing bid price for the Common Stock on October 3, 1997 was \$.52 per share.

See "Risk Factors" on page 3 of this Prospectus for a discussion of certain factors that should be considered by prospective investors in the Common Stock offered hereby.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is October __, 1997.

AVAILABLE INFORMATION

The Company has filed a registration statement on Form SB-2 (together with any amendments thereto, the "Registration Statement") with the Securities and Exchange Commission (the "Commission") under the Act with respect to the Common Stock. This Prospectus, which constitutes a part of the Registration Statement, omits certain information contained in the Registration Statement and reference is made to the Registration Statement and the exhibits and schedules thereto for further information with respect to the Company and the Common Stock. Statements contained in this Prospectus as to the contents of certain documents filed with, or incorporated by reference in the Registration Statement are not necessarily complete, and in each instance reference is made to such document, each such statement being qualified in all respects by such reference.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports and other information with the Commission. Such reports, and other information filed by the Company can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices located at 7 World Trade Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can also be obtained at prescribed rates from the Public Reference Section of the Commission, Washington, D.C. 20549. In addition, registration statements and certain other filings made with the Commission through its Electronic Data Gathering, Analysis and Retrieval system are publicly available through the Commission's site on the Internet's World Wide Web, located at <http://www.sec.gov>.

The Company will provide a copy of any or all documents incorporated by reference herein (exclusive of exhibits unless such exhibits are specifically incorporated by reference therein), without charge, to each person to whom this Prospectus is delivered, upon written or oral request to USA Technologies, Inc., 200 Plant Avenue, Wayne, Pennsylvania 19087, Attn: George R. Jensen, Jr., Chief Executive Officer (telephone (610) 989-0340).

The Company will furnish record holders of its securities with annual reports containing financial statements audited and reported upon by its independent auditors, quarterly reports containing unaudited interim financial information, and such other periodic reports as the Company may determine to be appropriate or as may be required by law.

PROSPECTUS SUMMARY

The following information does not purport to be complete and is qualified in its entirety by and should be read in conjunction with the more detailed information and Financial Statements, including the notes thereto, appearing elsewhere in this Prospectus. Prospective investors should consider carefully the factors discussed below under "Risk Factors".

The Company

USA Technologies, Inc., a Pennsylvania corporation (the "Company"), was founded in January 1992. The Company changed its name from USA Entertainment Center, Inc. to USA Technologies, Inc. on June 7, 1995 to more accurately reflect the nature of its business. The Company is in the development stage and is an owner and licensor of unattended, credit card activated control systems for use in connection with copying machines, debit card purchase/revalue stations, facsimile machines, personal computers, and computer printers. The Company's customers are university libraries, public libraries, hotels and retail locations. In September 1996, the Company commenced offering its control systems to the hospitality industry under the name Business Express(TM). The Company anticipates generating its revenues both from the sale of equipment utilizing its control systems, from retaining a percentage of the revenues generated from all credit card transactions conducted through its control systems, and from monthly administrative fees paid by various locations utilizing its control systems.

In order to activate the equipment attached to the Company's control systems, the consumer must swipe a valid credit card through the control system. The control system then transmits this request to the credit card processor. The credit card processor verifies that the credit card is valid and authorizes the transaction. The control system then activates the equipment for use by the consumer. When the consumer has finished using the equipment, the control system transmits a record of the transactions to the Company's computer center. On a daily basis, the Company transmits the transaction information collected from all of its installed control devices to the credit card processor. The credit card processor electronically transfers the proceeds derived from these transactions, less the credit card processor's charge, to the Company. The Company then forwards a check to the location representing its share of the proceeds.

As of June 30, 1997, the Company had installed at commercial locations a total of 285 devices and revenues have been nominal. See "Business." As of June 30, 1997, 39 Business Express(TM) units containing 130 control systems have been installed in hotels located throughout the United States and Canada. Of the 39 units which have been installed, 32 have included the purchase of equipment from the Company and the licensing of its control systems and 7 were installed on a revenue-sharing basis and included only the licensing of its control systems. See "Business -- Business Express(TM)."

The Company has entered into an agreement with International Business Machines Corporation ("IBM") pursuant to which the Company has been approved as an IBM Business Partner - Personal Computer Reseller. The Company has also entered into similar agreements with Dell Computer Corporation and Hewlett-Packard Company. See "Business -- Procurement."

In March 1997, the Company entered into a co-marketing agreement with Minolta Corporation pursuant to which the Company and Minolta will work together in order to market and sell the Business Express(TM) featuring the Minolta copier to the hospitality industry. The Company has also entered into a co-marketing agreement with Lexmark International, Inc., pursuant to which the Company and Lexmark will work together to market and sell the Business Express(TM) featuring the Lexmark printer to the hospitality industry. See "Business -- Marketing."

In May 1997, the Company entered into an agreement with a newly formed Canadian company pursuant to which it would sell to such purchaser 10 Business Express(TM) business centers. The purchaser has indicated to the Company that it intends to install the units within existing and proposed Wal-Mart stores in Canada. The total purchase price for the 10 units would be \$1,118,261 (payable in Canadian dollars). Fifty percent of the purchase price for each unit would be payable prior to installation and the balance would be payable upon installation. The agreement also appoints USA as the purchaser's agent in connection with the processing, collection, and disbursement of all revenue from credit card sales in connection with the units. The agreement states that the Business Express(TM) units shall be installed at the purchaser's discretion. Through June 30, 1997, one unit had been installed and none have been installed thereafter. The dates of installation of any of the remaining units have not been scheduled.

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 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 Express(TM) are to be shared by the Company and MBE. In addition, other revenues resulting from activities relating to the MBE 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 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 Express(TM) business centers and will receive a monthly service fee of \$20.00 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 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 Express(TM) would include a dial-through service to a nearby MBE store making available the products and services of the store.

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 (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. The terminals are to be delivered to MBE by the Company in October 1997.

The Company has entered into corporate agreements which establish itself as a preferred supplier of business center products to two of the top hospitality companies in the world: Choice Hotels International (Clarion, Quality, Comfort, Sleep Inns), and Promus Hotel Corporation (Embassy Suites, Hampton, Doubletree). In addition, the Company's Business Express(TM) has been approved and recommended as a solution by Marriott for its hotels.

The Company's executive offices are located at 200 Plant Avenue, Wayne, Pennsylvania 19087, and its telephone number is (610) 989-0340.

Description Of The Securities

Issuer	USA Technologies, Inc.
Securities Offered	Up to 5,100,000 shares of Common Stock by the Selling Shareholders. See "Selling Shareholders."
Common Stock Outstanding as of June 30, 1997	29,969,934 shares. On a fully converted basis, there would be 55,236,870 shares outstanding consisting of 4,128,300 shares issuable upon exercise of outstanding options and purchase rights, 2,000,000 shares issuable upon exercise of the Warrants issued to affiliates and/or consultants to GEM Advisors, Inc. in June 1997, 1,600,000 shares issuable upon exercise of the 1997 Warrants issued in April, May and June 1997 ("1997 Warrants"), 374,000 shares issuable upon exercise of the 1996-B Warrants issued in January and February 1997 ("1996-B Warrants"), 1,998,000 shares issuable upon exercise of the 1996 Common Stock Purchase Warrants issued in 1996 ("1996 Warrants"), 1,414,000 shares issuable upon the exercise of the 1995 Warrants issued by the Company in 1995 ("1995 Warrants"), 10,334,460 shares issuable upon conversion of the Preferred Stock at the 12 to 1 conversion rate, and 3,418,176 shares issuable upon conversion of accrued and unpaid dividends on the Preferred Stock at the \$.83 per share conversion price (if these conversions do not occur prior to December 31, 1997, there would be 8,612,050 shares issuable upon conversion of Preferred Stock at the 10 to 1 conversion rate and 2,837,086 shares issuable upon conversion of accrued and unpaid dividends on the Preferred Stock at the \$1.00 per share conversion price).
Preferred Stock Outstanding as of June 30, 1997	861,205 shares. Each share of Series A Convertible Preferred Stock, no par value, of the Company ("Preferred Stock") is convertible by the holder thereof at any time into 10 shares of Common Stock, provided that through December 31, 1997, each share of Preferred Stock is convertible into 12 shares of Common Stock. The holders of Preferred Stock are entitled to an annual cumulative cash dividend of \$1.50 per share. The outstanding shares of Preferred Stock are convertible into 10,334,460 shares of Common Stock through December 31, 1997 and 8,612,050 shares of Common Stock at any time thereafter. At the time of conversion, all accrued and unpaid dividends are converted into Common Stock at the rate of \$1.00 per share of Common Stock, provided that through December 31, 1997, all accrued and unpaid dividends are converted into Common Stock at the rate of \$.83 per share of Common Stock. See "Description

of Securities - Series A
Convertible Preferred Stock."

Common Stock OTC Bulletin
Board Symbol
Use of Proceeds

USTT

The Company will receive no cash proceeds from the sale of the Common Stock being offered by the Selling Shareholders hereby. The Company would, however, receive \$.25 per 1995 Warrant if exercised prior to October 31, 1997, and \$.50 per 1995 Warrant if exercised by the Selling Shareholders thereafter (or such lower exercise price as the Company may determine). Through the date hereof, a total of 3,686,000 1995 Warrants have been exercised by the Selling Shareholders at \$.30 each, generating gross proceeds of \$1,105,800. The Company has used these proceeds to finance working capital. There is no assurance that any or all of the remaining 1995 Warrants will be exercised by the Selling Shareholders, and if none of the remaining 1995 Warrants are exercised, the Company would not receive any further gross proceeds. The Selling Shareholders will receive all of the net proceeds from the sale of the Common Stock. The Company will incur expenses of approximately \$60,000 in connection with the registration of the Common Stock underlying the 1995 Warrants. See "Description of Securities - 1995 Common Stock Purchase Warrants."

RECENT DEVELOPMENTS

During the fiscal quarter ended September 30, 1997, the Company incurred operating losses of approximately \$625,000 (unaudited).

RISK FACTORS

The securities described herein are speculative and involve a high degree of risk. Each prospective investor in the Common Stock should carefully consider the following risk factors inherent in and affecting the business of the Company and the Common Stock before investing in the Common Stock.

1. Development Stage Company; Limited Operating History; Significant Cumulative Operating Losses; Auditor Report Modification for Going Concern. Since its founding in January 1992, the Company has been in the development stage and 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 June 30, 1997 the Company has generated funds primarily through the sales of its securities. The auditor's report includes a modification that indicates that the Company's existence may be dependent on its ability to continue to raise capital and generate sufficient revenue from operations. See "Financial Statements." The Company installed its first product, the Golfer's Oasis(TM) in June 1994. This product line did not achieve the anticipated market acceptance and was also very capital intensive. There are currently no units in operation and net revenues through June 30, 1997 were nominal. The Copy Express(TM) was first installed in January 1995, and as of June 30, 1997, there were only 67 units in operation and net revenues therefrom were nominal. The Credit Card Vending Express(TM) was first installed in March 1995, and as of the date hereof, there were no units in operation. The Company's Debit Express(TM) was first installed in April 1995, and as of June 30, 1997, there were only 34 units in operation and net revenues were nominal. The Public PC(TM) (formerly known as the Credit Card Computer Express(TM)) was first installed in April 1996, and as of June 30, 1997, there were only 54 units in operation and net revenues were nominal. The Business Express(TM) was first installed in September 1996, and as of June 30, 1997, there were only 130 control systems in operation at 39 locations and net revenues were nominal.

For its fiscal years ended June 30, 1996, and June 30, 1997, the Company incurred operating losses of \$2,451,697 and \$3,120,712, respectively. From its inception on January 16, 1992 through June 30, 1997, the Company has incurred operating losses of \$9,363,671. Such operating losses are anticipated to continue through at least June 30, 1998. See "Management's Discussion And Analysis of Financial Condition And Results of Operations."

As of June 30, 1997, the Company's working capital was approximately \$671,914, of which \$378,318 was invested in inventory. At June 30, 1997, the Company had cash net of current liabilities of approximately \$90,608. The Company anticipates generating additional cash to finance future operating expenses by selling additional securities and through increased revenues. As of June 30, 1997, 285 of the Company's control devices have been installed and net revenues have been nominal. Accordingly, the Company has an extremely limited operating history upon which an evaluation of the Company's prospects can be made. Such prospects must be considered in light of the risks, expenses and difficulties frequently encountered in the establishment of a new business as well as the risks, expenses and difficulties encountered by a development stage company. There is currently no basis upon which to assume that the Company's business will prove financially profitable or generate more than nominal operating revenues. In addition, there can be no assurances that the Company will be able to continue to sell additional securities. If the Company either fails to generate increased revenues or fails to sell additional securities, investors may lose all or a substantial portion of their investment.

2. Dependence Upon Key Personnel. The Company is dependent on certain key management personnel, particularly its President and Chief Executive Officer, George R. Jensen, Jr. The loss of services of Mr. Jensen or other executive officers would have a material adverse effect upon the Company's business. See "Management - Officer Terminations." The Company has entered into an employment agreement with Mr. Jensen that expires in June 1998 and one-year employment agreements with the other executive officers each of which contain non-compete agreements. The Company has obtained a key man life insurance policy in the amount of \$2,000,000 on Mr. Jensen, and a key man life insurance policy in the amount of \$1,000,000 on its Vice President-Research and Development, Haven Brock Kolls, Jr. The Company does not have and does not presently intend to obtain key man life insurance coverage on any of its other executive officers.

3. Uncertainty of New Product Development; Unproven Commercial Viability. While a number of products or services such as gasoline and public telephones are currently provided through unattended, credit card activated terminals, the commercial viability of any of the Company's products has not been established. Although commercial production and installation of the Company's products has commenced on a very limited basis, there can be no assurance that the Company's products will be successful or become profitable. Likewise, there can be no assurance that the demand for the Company's products will be sufficient to enable the Company to become profitable. In any such event, investors may lose all or substantially all of their investment in the Company.

4. Dependence on Proprietary Technology; Patent Issues. The Company's success is dependent in part on its ability to obtain patent protection for its products, maintain trade secret protection and operate without infringing the proprietary rights of others. To date, the Company has filed ten patent applications, and intends to file applications for additional patents covering its future products although there can be no assurance that it would do so. In addition, there can be no assurance that the Company will maintain or prosecute these applications. The United States Government granted one of the Company's patents during April 1997 and another of its patents during June 1997. See "Business - Patents, Trademarks and Proprietary Information." There can be no assurance that any of the remaining patent applications will be granted, that the Company will develop additional products that are patentable or do not infringe the patents of others, or that any patents issued to the Company will provide the Company with any competitive advantages or adequate protection for its products. In addition, there can be no assurance that any patents issued to the Company will not be challenged, invalidated or circumvented by others. There can be no assurance that any of the Company's products would not infringe the patents of others. If any of the Company's products is found to have infringed any patent, there can be no assurance that the Company will be able to obtain licenses to continue to manufacture and license such product or that the Company will not have to pay damages as a result of such infringement. Even if a patent application is granted for any of the Company's products, there can be no assurance that the patented technology will be a commercial success or result in any profits to the Company.

5. Competition. There are companies presently offering unattended, credit card activated control systems in connection with facsimile machines, personal computers, debit card purchase/revalue stations, and use of the Internet and e-mail which are in direct competition with the Company's products. In addition, the businesses which have developed unattended, credit card activated control systems currently used in connection with gasoline dispensing, public telephones, prepaid telephone cards, ticket dispensing machines, or vending machines are capable of developing control systems in direct competition with the Company. Many of these businesses are well established, have substantially greater resources than the Company and have established reputations for success in the development, sale and service of high quality products. The Company is aware of one business which enables the use of any "off the shelf" facsimile machine as a public facsimile machine by utilizing the telephone to record credit card information and then directly placing the telephone onto the facsimile machine. Such competition may result in lower percentages of gross revenues being retained by the Company in connection with its devices, or otherwise may reduce potential profits or result in a loss of some or all of its customer base. To the extent the Company's competitors are able to offer more attractive technology, the Company's ability to compete could be materially and adversely affected. The Company is also aware of several businesses which make available use of the Internet and use of personal computers to hotel guests in their hotel rooms on an as-needed basis. Although these services are not credit card activated, such services would compete with the Company's Business Express(TM), and the location may not order the Business Express(TM), or if ordered, the hotel guest may not use it.

6. Dependence on Third-Party Suppliers. The Company is dependent on third-party suppliers for the various component parts of its control systems. Although the Company believes there are alternative sources for these component parts, the failure of such suppliers to supply such component parts or the absence of readily available alternative sources could have a material adverse effect on the Company, including delaying the implementation of the Company's business plan to achieve profitability. The Company does not have supply contracts with any of such third-party suppliers and intends to purchase components pursuant to purchase orders placed from time to time. See "Business-Procurement".

7. Cash Dividends Not Likely. There can be no assurance that the proposed operations of the Company will result in significant revenues or any level of profitability. Any earnings which may be generated by the Company would be used, for the foreseeable future, to finance the growth of the Company's business. Accordingly, while payment of dividends rests within the discretion of the Board of Directors, no cash dividends on the Common Stock have been declared or paid by the Company to date, and the Company does not presently intend to pay cash dividends on the Common Stock for the foreseeable future. Although the Company paid a special stock dividend in August 1995 consisting of 3 shares of Common Stock for each share of outstanding Preferred Stock, there can be no assurance that cash dividends will ever be paid on the Common Stock. See "Description of Securities-Series A Convertible Preferred Stock." The Articles of Incorporation of the Company prohibit the declaration of any dividends on the Common Stock unless and until all unpaid and accumulated dividends on the Preferred Stock have been declared and paid. Through June 30, 1997, the unpaid and cumulative dividends on the Preferred Stock equal \$2,837,086. The unpaid and accumulated dividends are either payable in cash by the Company when and if declared by the Board of Directors of the Company, or may be converted by the holder thereof into shares of Common Stock at the rate of \$1.00 per share at the time of conversion of the underlying share of Preferred Stock, provided that the rate of conversion of such dividends is \$.83 per share through December 31, 1997. Through June 30, 1997, \$158,775 of unpaid and cumulative dividends on the Preferred Stock have been converted to 174,784 shares of Common Stock. See "Description of Securities- Series A Convertible Preferred Stock."

8. Need For Market Acceptance; Location Risk. There can be no assurance that demand for the Company's products will be sufficient to enable the Company to become profitable. Likewise, no assurance can be given that the Company will be able to install the credit card activated control systems at enough locations to achieve significant revenues or that its operations can be conducted profitably. As of June 30, 1997, the Company has installed only 285 of its control devices at commercial locations and revenues have been nominal. Alternatively, the locations which would utilize the control systems may not be successful locations. In such event, the revenues of the Company would be adversely affected. The Company may lose locations utilizing its products to competitors, or may not be able to install its products at its competitor's locations.

9. No Assurance of Active Public Market. The Common Stock is currently traded on the OTC Electronic Bulletin Board. Although there is limited trading in the Common Stock, there is no established trading market therefore. Unless and until there is an established trading market for the Common Stock, holders of the Common Stock could find it difficult to dispose of, or to obtain accurate quotations as to the price of, the Common Stock. See "Description of Securities - - Shares Eligible For Future Sale" and "Market For Common Stock."

10. Risks of Low-Priced Stocks. The Common Stock is subject to the so-called penny stock rules that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally defined as an investor with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000 together with a spouse). For transactions covered by this rule, the broker-dealer must make a special suitability determination for the purchaser and must have received the purchaser's written consent to the transaction prior to sale. These regulations may adversely affect the ability of broker-dealers to sell the Common Stock.

The Commission has adopted regulations that define a penny stock to be any equity security that has a market price (as defined) of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the transaction, of a disclosure schedule relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's

presumed control over the market.

As of the date hereof, the Common Stock qualifies as a penny stock and is subject to the above regulations. The above regulations could adversely affect the market liquidity for the Common Stock and could limit the ability of broker-dealers to sell the Common Stock as well as the ability of holders of the Common Stock to sell the Common Stock in the secondary market.

11. Charge to Income in the Event of Release of Escrow Shares. In January 1994, at the time of the Company's initial public offering, and as a condition of effectiveness of the offering in Pennsylvania, the Pennsylvania Securities Commission requested that Mr. Jensen place in escrow with Corestates Bank (formerly Meridian Bank), as escrow agent, all of the 7,593,000 shares of Common Stock beneficially owned by him until June 30, 1998. Any additional shares of Common Stock acquired by him will also be held in escrow. Subject to the provisions of the escrow agreement, Mr. Jensen has agreed not to sell, pledge, or transfer, directly or indirectly, any of the Common Stock held in escrow.

The escrow agreement provides that it shall be terminated prior to June 30, 1998, and all of Mr. Jensen's shares of Common Stock currently held in escrow shall be released and returned to him in the event of any dissolution, merger, consolidation, sale of assets, stock sale, liquidation, tender offer, exchange offer, or otherwise of or to the Company or its shareholders. In connection with any such event, Mr. Jensen would not receive any consideration for his shares of Common Stock unless and until each shareholder (other than Mr. Jensen) has received an amount equal to \$1.00 per share of Common Stock.

Mr. Jensen has agreed that 4,365,000 shares of his escrowed Common Stock would be canceled by the Company and would no longer be issued and outstanding unless one of the following occurs (i) the bid price of the Common Stock equals or exceeds \$1.75 for 30 consecutive trading days at any time during the period of July 1, 1996 through June 30, 1998; or (ii) the Company's cumulative operating income (before taxes, dividends, or extraordinary items) per share of Common Stock (on a fully diluted basis) at any time after July 1, 1994, through June 30, 1998, equals or exceeds \$.18. Mr. Jensen has agreed that an amount equal to 1,030,000 shares of his escrowed Common Stock (rather than 4,365,000 shares) would be canceled if at any time after July 1, 1994 and prior to June 30, 1998, the Company's cumulative operating income per share of Common Stock is at least \$.12 but less than \$.18.

Subject to the terms of the escrow agreement, Mr. Jensen's Common Stock will be held in escrow until the earlier of the satisfaction of any of the above conditions (in which event no shares, or only 1,030,000 shares, would be canceled), or June 30, 1998. Unless and until any such shares would be canceled, and subject to the restrictions on sale or transfer pursuant to the escrow arrangement, Mr. Jensen has retained all rights pertaining to such shares, including voting rights.

If the Company attains the aforementioned earning thresholds or the Company's Common Stock attains the aforementioned prices required for the release of certain shares of Common Stock currently held in escrow and which are subject to cancellation, such release will require the Company to recognize additional compensation expense. In the event such shares are released, they will be considered outstanding for purposes of calculating per share information concerning the Company. Accordingly, the Company will, in the event of the release of such Common Stock, recognize during the period in which the earning thresholds are met or such per share prices obtained, what could be a substantial charge that would have the effect of substantially increasing the Company's loss or reducing or eliminating earnings, if any, at such time. Such charge will not be deductible for income tax purposes. Although the amount of compensation expense recognized by the Company will not affect the Company's total stockholders' equity or cash flow, it may have a depressive effect on the market price of the Company's securities. If the required earnings threshold was achieved at June 30, 1997, the compensatory charge to the Company's operations during the fiscal year ended June 30, 1997 would have been \$1,746,000 (assuming the fair market value approximated \$.40 per share on June 30, 1997). This charge would not have affected the Company's cash flow or total shareholders' equity. The net loss per share of Common Stock would have been (\$.29). See "Principal Shareholders - Escrow and Cancellation Arrangements."

In January 1994, at the time of the Company's initial public offering, and as a condition of effectiveness of the offering in Pennsylvania, the Pennsylvania Securities Commission also requested that all of the Directors and executive officers of the Company (in addition to Mr. Jensen) place in escrow all of the shares of Common Stock owned or to be owned by them until January 5, 1997. As set forth above, Mr. Jensen's shares of Common Stock are to remain in escrow until June 30, 1998. The escrow agreement provided that such escrowed shares could not be sold, pledged or transferred. On January 5, 1997 all of such shares of Common Stock were released from escrow, returned to their respective owner, and are no longer subject to the terms of the escrow agreement. An aggregate of 1,009,500 shares of Common Stock were released from escrow and only Mr. Jensen's shares remain in escrow.

Pennsylvania is a so-called "merit review" state pursuant to which state regulators had broad discretion to impose conditions upon the Company in connection with its initial public offering in Pennsylvania. The staff of the Pennsylvania Securities Commission believed that the amount of Common Stock and options to acquire Common Stock that had been issued to the Directors and executive officers by the Company at the time of the initial public offering exceeded the amount permitted by its informal guidelines, and therefore requested the cancellation arrangements relating to Mr. Jensen's shares described above. In addition, the staff believed that all such Common Stock constituted "promotional securities" and requested that all such Common Stock be placed in escrow for three years (and that Mr. Jensen's shares be subject to the escrow arrangement for a longer period).

12. Uncertainty of Company to Continue as a Going Concern. The Company's independent auditors have included an explanatory paragraph in their report on the Company's financial statements for the year ended June 30, 1997, to the effect that the Company's ability to continue as a going concern is in substantial doubt. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Financial Statements." If the Company ceases to continue as a going concern, the investors in the Common Stock would lose all or substantially all of their investment in their Common Stock.

13. Dilution, Issuance of Additional Securities By The Company. As of June 30, 1997, the Company has issued outstanding options and purchase rights to acquire up to 4,128,300 shares of Common Stock, has issued warrants to affiliates and/or consultants to GEM Advisors, Inc. which are convertible into 2,000,000 shares of Common Stock, has issued 1997 Warrants which are convertible into 1,600,000 shares of Common Stock, has issued 1996-B Warrants which are convertible into 374,000 shares of Common Stock, has issued 1996 Warrants which are convertible into 1,998,000 shares of Common Stock, has issued 1995 Warrants which are convertible into 1,414,000 shares of Common Stock, and has issued 861,205 shares of Preferred Stock which are convertible into 10,334,460 shares of Common Stock through December 31, 1997 and has \$2,837,086 cumulative preferred dividends which are convertible into 3,418,176 shares of Common Stock through December 31, 1997. In the event any or all of such securities are exercised or converted, the number of issued and outstanding shares of Common Stock would be increased. In such event, the percentage of Common Stock held by each holder of Common Stock prior to such exercise or conversion would be reduced and such exercise or conversion may have a dilutive effect on the market price of the Common Stock. If all of such securities would be exercised or converted into Common Stock, an additional 25,266,936 shares of Common Stock would be issued and outstanding as of June 30, 1997, for a total of 55,236,870 shares of Common Stock issued and outstanding. The Company may in the future issue additional options, warrants or other securities convertible or exchangeable into Common Stock. See "Recent Developments."

During the fiscal years ended June 30, 1995, June 30, 1996, and June 30, 1997, the Company issued an additional 1,623,112 shares of Common Stock, an additional 587,753 shares of Preferred Stock, options to acquire up to 3,780,000 shares of Common Stock and warrants to acquire up to 14,274,000 shares of Common Stock. Assuming the exercise or conversion of all such securities, the issued and outstanding shares of Common Stock would be increased by 19,872,142 shares. As of June 30, 1997, such additional shares would represent approximately 39.8% of all the issued and outstanding Common Stock on a fully converted basis.

14. Excessive Share Issuances, Number of Authorized Shares. As of June 30, 1997, on a fully converted basis, the Company would have 55,236,870 shares of Common Stock issued and outstanding. This amount exceeds the authorized number of shares of Common Stock of 55,000,000 by 236,870 shares. As of September 30, 1997, on a fully converted basis, the Company would have 55,563,584 shares of Common Stock issued and outstanding. The Company's Articles of Incorporation, the issued and outstanding option certificates and the various warrant agreements contain various covenants which require the Company to reserve an adequate number of shares of Common Stock for various contingencies. Although the Company currently has reserved an adequate number of shares of Common Stock on a fully converted basis, there can be no assurance that the Company will be able to continue to satisfy these covenants.

All of the outstanding warrant agreements contain a covenant which states that there have been reserved, and the Company shall at all times keep reserved out of the authorized and unissued shares of Common Stock, a number of shares of Common Stock sufficient to provide for the exercise of the rights of purchase represented by the warrants.

All of the option certificates contain a covenant which states that "the Company shall at all times keep reserved out of the authorized and unissued shares of Common Stock a number of shares of Common Stock sufficient to provide for the exercise of the right of purchase represented by the options." Of the issued and outstanding options to purchase 3,971,000 shares of Common Stock, as of June 30, 1997 a total of 775,000 of these options have not vested and thus are not eligible for exercise. As of December 31, 1997, a total of 462,500 of these options will remain unvested and not be eligible for exercise.

The Company's Articles of Incorporation state that the Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock a sufficient number of shares to effect the conversion of the shares of the Preferred Stock.

On and after January 1, 1998, each share of Preferred Stock would be convertible into 10 shares of Common Stock instead of 12 shares of Common Stock, as currently provided. On and after January 1, 1998, the accrued and unpaid dividends on the Preferred Stock would be convertible into Common Stock at the rate of \$1.00 per share of Common Stock as opposed to the present conversion rate of \$.83 per share of Common Stock. Based on the 861,705 shares of Preferred Stock outstanding on June 30, 1997 and the accrued dividends thereon, the change in these conversion rates on January 1, 1998 would result in a reduction of 2,303,500 shares of the fully diluted Common Stock. However, to the extent that the holders of Preferred Stock convert their shares before such date, this anticipated reduction in the outstanding shares of Common Stock would be reduced or eliminated. Furthermore, based on the 861,205 shares of Preferred Stock outstanding on August 1, 1997, an additional \$645,904 dividend accrued on August 1, 1997 entitling the holders of Preferred Stock to acquire 778,197 additional shares of Common Stock through December 31, 1997, and 645,904 shares thereafter. Although the Company has not made any covenants to the holders of the Preferred Stock to reserve shares of Common Stock for issuance upon conversion of the accrued dividends on the Preferred Stock, these additional dividends are automatically convertible into Common Stock at the time of the conversion of the related shares of Preferred Stock. Thus, on June 30, 1997, although the accrued dividends on the Preferred Stock could be converted into 3,418,176 shares of Common Stock, there were only 3,338,816 shares of Common Stock that were authorized and unreserved. There can be no assurance that a sufficient number of shareholders will not convert their Preferred Stock and the accrued dividends thereon into shares of Common Stock, thus causing the Company to violate the above covenants.

The Company could remedy any violation of the above covenants by increasing the number of authorized shares of Common Stock. Any such increase must be approved by the Board of Directors of the Company and then approved by a majority vote of the shareholders of the Company. There can be no assurance that a majority of the shareholders would approve such a proposal. At this time, the Company has no intention of presenting such a proposal to the shareholders.

USE OF PROCEEDS

The Company will not receive any of the proceeds from the sales of the Common Stock by the Selling Shareholders. See "Selling Shareholders" for a list of those Shareholders entitled to receive net proceeds from the sales of the Common Stock. The Company would, however, receive \$.25 through October 31, 1997, and \$.50 thereafter (or such lower exercise price as the Company may determine) upon the exercise of each 1995 Warrant by a Selling Shareholder. From February 12, 1996 through September 30, 1996, the Company reduced the exercise price of the 1995 Warrants to \$.30. See "Description of Securities - 1995 Common Stock Purchase Warrants." Through September 30, 1996, a total of 3,686,000 1995 Warrants were exercised at \$.30, and gross proceeds to the Company were \$1,105,800. No 1995 Warrants have been exercised since September 30, 1996 and through the date hereof. These proceeds were used to finance working capital. There is no assurance that any or all of the remaining 1995 warrants will be exercised by the Selling Shareholders. The Selling Shareholders will receive all of the net proceeds from the sale of the Common Stock pursuant to this Prospectus. The Company will incur costs of approximately \$60,000 in connection with the registration of the Common Stock underlying the 1995 Warrants. See "Description of Securities - 1995 Common Stock Purchase Warrants."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Since 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 June 30, 1997, the Company has had nominal operating revenues (exclusive of interest) of \$671,430 and has generated funds primarily through the sale of its securities. Through June 30, 1997 the Company has received, net of expenses of such sales, the amount of \$5,487,636 in connection with private placements, \$1,681,908 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 June 30, 1997 of \$9,363,671 and such losses are expected to continue through June 30, 1998.

The Company's independent auditors have included an explanatory paragraph in their report on the Company's June 30, 1997 financial statements discussing issues which raise substantial doubt about the Company's ability to continue as a going concern. The Company believes that the funds available at June 30, 1997 combined with the revenues to be generated during fiscal year 1998, the potential capital to be raised from the exercise of Common Stock purchase warrants, and the ability to defer anticipated expenditures, if required, will provide for the Company to continue as a going concern. There can be no assurance, however, that any significant revenues will be generated during the 1998 fiscal year or that sufficient capital can be raised by the Company. In such event, the Company may cease to be a going concern and investors in the Common Stock may lose all of their investment.

Results of Operations

Fiscal year ended June 30, 1997:

For the fiscal year ended June 30, 1997, the Company had a net loss of \$3,120,712. Overall this loss reflects the continuing development stage activities of the Company. The Company's preferred stock provides for an annual cumulative dividend of \$1.50 per share payable to the shareholders of record on February 1 and August 1 each year as declared by the Company's Board of Directors. The \$4,364,007 loss applicable to common shares or \$.21 loss per common share was derived by adding the \$3,120,712 net loss and the \$1,243,295 of cumulative preferred dividends earned for the year ending June 30, 1997, and dividing by the weighted average shares outstanding, of 20,984,381.

Revenues for the period were \$607,772, which increased \$554,793 from last year, primarily reflecting the sales of the Business Express(TM) product line.

Operating expenses for the fiscal year ended June 30, 1997 were \$3,742,961, representing a \$1,212,166 or 47.9% increase over the prior year. The primary contributors to this increase were Cost of Sales, General and Administrative expense and Compensation, as detailed below.

Cost of sales increased by \$525,090 from nothing in the prior year, reflecting the first year of equipment sales. (The implied gross profit of \$82,682 represents a margin of 13.6%). General and administrative expense of \$2,040,163 increased sharply by \$528,882 or 35.0% which reflects both a general increase in spending to support the expansion of operations as well as several non-operational factors. Specifically the major contributors to this increase were: Travel and lodging increased by a total of \$66,393, which reflected significant marketing related travel as well as an increase in travel for the increased numbers of installations. Marketing promotions, mailings and trade show expenses increased \$110,147. Advertising increased by \$26,000, reflecting the need to increase product awareness in the marketplace. Professional and consultant fees increased by \$86,770, reflecting increased legal, public relations and patent activity. Product development expense increased \$119,852 primarily due to developmental costs for new customers. The balance of the increase includes temporary services, telephone, office expense, and postage.

Compensation expense was \$1,080,458, an increase of \$177,060 or 19.6% over the previous year. This increase was primarily due to headcount increases in the sales function and to a lesser extent, operations. The cost of employee benefits also rose by \$34,468.

Depreciation expense of \$97,250 increased by \$25,234, which is attributable to the increased depreciable asset base.

Fiscal year ended June 30, 1996:

For the fiscal year ended June 30, 1996, the Company had a net loss of \$2,451,697. Overall this loss reflects the continuing development stage activities of the Company. The Company's preferred stock provides for an annual cumulative dividend of \$1.50 per share payable to the shareholders of record on February 1 and August 1 each year as declared by the Company's Board of Directors. The \$3,405,997 loss applicable to common shares or \$.23 loss per common share was derived by adding the \$2,451,697 net loss and the \$954,300 of cumulative preferred dividends for the year ending June 30, 1996 and dividing by the weighted average shares outstanding.

Revenues for the period remained at a nominal level reflecting the disappointing performance of the Credit Card Copy Express(TM) product line. Expenses for the fiscal year ended June 30, 1996 were \$2,536,544, representing a \$868,546 or 52% increase over the prior year. The primary contributors to this increase were General and Administrative expense and Compensation.

At June 30, 1996, cash was \$1,773,356 compared to \$376,191 on June 30, 1995. Such increase reflects the net proceeds received by the Company in connection with a private placement offering that closed in June 1996 which raised net proceeds of \$1,249,264. In addition, during fiscal year 1996, 3,686,000 1995 Warrants were exercised for aggregate proceeds to the Company of \$1,105,800. At June 30, 1996, inventory was \$426,391 compared to zero on June 30, 1995. Such inventory was purchased by the Company in connection with the marketing of its Credit Card Computer Express (TM) product (now known as the Public PC(TM)). The increase of accounts payable and accrued expenses reflects the increased operating expenses incurred by the Company.

General and administrative expense of \$1,449,889 increased sharply by \$751,289 or 10.7% which reflects both a general increase in spending to support the expansion of operations as well as several non-operational factors. Specifically the major contributors to this increase were (a) \$187,122 increase in travel and lodging which was concentrated in the operations area and reflects the installation of the Company's control devices; (b) \$103,355 increase in professional fees due to financial consultant and legal fees, including increased patent activity; (c) \$93,888 increase in product development expense primarily due to the programming and configuration of the Company's newly completed C3X(TM); (d) \$313,548 increase in consulting expenses of which \$247,205 is a non-cash transaction attributable to the issuance of Common Stock in exchange for services rendered; and the

balance of the increase which includes public relations and technical services. Telephone, office expense, and postage increased moderately.

Compensation expense was \$903,398, an increase of \$215,013 or 31% over the previous year. This increase was concentrated in the marketing function and corporate staffing, and also including \$27,343 of expense to initiate an employee medical benefits plan.

Depreciation expense of \$72,016 increased by \$56,548, which is attributable to the increased depreciable asset base. Advertising remained consistent with the previous year.

A provision for losses on equipment was charged to operations in the amount of \$44,100 which represents the final charge for the discontinuance of the Golfers Oasis(TM) product line.

Interest expense returned to normal levels with the elimination of the public offering interest cost reflected in the prior year.

Plan of Operations

As of June 30, 1997, the Company had a total of 285 credit card activated control systems installed in the field as follows: Business Express(TM) 130, Copy Express(TM) 44, Debit Express(TM) 34, Public PC(TM) 54, Fax/Printer Express(TM) 23. Through June 30, 1997 the total license fee income received by the Company from these systems was \$117,158.

During the past year the Company has continued its new direction in product development. It has focused on products capable of generating new incremental revenue for equipment operators (ie, Business Express) as opposed to in the past simply providing a better method of payment (ie. Copy Express). The new direction is also reflected in 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 dependency 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 developmental stage to an operating mode. The Company also intends to continue to focus on the sales and/or leasing of its Business Express(TM) business centers.

Liquidity and Capital Resources

During the fiscal year ended June 30, 1997, the Company completed a number of equity transactions. Net proceeds of \$394,688 were realized from the two Private Placement Offerings of Preferred Stock and \$1,141,126 was realized from Common Stock transactions, principally the exercise of Common Stock purchase warrants. As of June 30, 1997 total working capital was \$671,914, including cash on hand of \$630,266.

During the fiscal year ended June 30, 1997, net cash of \$2,651,341 was used by operating activities, primarily compensation and general and administrative expenses. Consulting expense reflected \$277,198 of a non-cash transaction attributable to the issuance of common stock in exchange for services rendered. Net cash of \$17,855 was used by investing activities principally for the purchase of furniture. The net cash provided by financing activities of \$1,526,107 was principally due to the net proceeds generated from the issuance of securities described in the prior paragraph.

The Company's independent auditors have included an explanatory paragraph in their report on the Company's June 30, 1997 financial statements discussing issues which raise substantial doubt about the Company's ability to

continue as a going concern. The Company believes that the funds available at June 30, 1997 combined with the revenues and earnings to be generated during fiscal year 1998, the potential capital to be raised from the exercise of the Common Stock purchase warrants, and the ability to defer anticipated expenditures, if required, will provide for the Company to continue as a going concern through at least June 30, 1998. There can be no assurance, however, that any significant revenues and earnings will be generated during the 1998 fiscal year or that sufficient capital can be raised by the Company. In such event, the Company may cease to be a going concern or may have to reduce its operations or operating procedures. In such event, investors in the Common Stock may lose all of their investment.

The Company anticipates that for the year ended June 30, 1998 there will be a negative cash flow from operations in excess of \$1 million. The Company anticipates that the shortfall in cash flow will be supported by additional equity infusion from the exercise of the Common Stock purchase warrants, and, if needed, the ability to defer planned expenditures.

Commitment

During October 1996, the Company entered into a lease for approximately 7,000 square feet in Wayne, Pennsylvania for a monthly rental of \$5,000 plus utilities and operating expenses. The lease expires on October 15, 1999. A former property located at 1265 Drummers Lane, Wayne, PA, was vacated in October, 1996. The lease payment of approximately \$5,000 per month ceased as of August 31, 1997.

During August 1997, the Company entered into a commitment to acquire 500 control system equipment for \$242,325. These amounts are expected to be paid from the existing cash resources plus funds generated by Common Stock warrant exercises.

BUSINESS

USA Technologies, Inc., a Pennsylvania corporation (the "Company"), was founded in January 1992. The Company changed its name from USA Entertainment Center, Inc. to USA Technologies, Inc. on June 7, 1995 to more accurately reflect the nature of its business. The Company is in the development stage and is an owner and licensor of unattended, credit card activated control systems for use in connection with copying machines, debit card purchase/revalue stations, facsimile machines, personal computers and computer printers.

The Company anticipates generating its revenues from the sale of equipment utilizing its control systems, from retaining a portion of the revenues generated from all credit card transactions conducted through its control systems, and from monthly administrative fees paid by various locations utilizing its control systems. The Company has recently entered into joint marketing agreements with Minolta Corporation ("Minolta"), and Lexmark International, Inc. ("Lexmark"), and has been designated as authorized equipment resellers by Hewlett-Packard Company ("Hewlett-Packard"), International Business Machines Corporation ("IBM") and Dell Computer Corporation ("Dell"). The Company believes that the Company would benefit from the association of its control systems with the well known brands of business equipment manufactured by these companies.

On September 24, 1997, the Company entered into a Joint Venture Agreement 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 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 Express(TM) are to be shared by the Company and MBE. In addition, other revenues resulting from activities relating to the MBE 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 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 Express(TM) business centers and will receive a monthly service fee of \$20.00 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 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 Express(TM) would include a dial-through service to a nearby MBE store making available the products and services of the store.

In addition, 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. The terminals are to be delivered to MBE by the Company in October 1997.

The Company has entered into corporate agreements which establish itself as a preferred supplier of business center products to two of the top hospitality companies in the world: Choice Hotels International (Clarion, Quality, Comfort, Sleep Inns), and Promus Hotel Corporation (Embassy Suites, Hampton, Doubletree). In addition, the Company's Business Express(TM) has been approved and recommended as a solution by Marriott for its hotels.

As of June 30, 1997, there were 285 of the Company's control systems installed at locations throughout the United States and Canada and revenues have been nominal.

The Control Systems

The Company has developed unattended, credit card activated control systems that are being utilized in connection with photocopying machines, debit card purchase/revalue stations, personal computers, facsimile machines and computer printers.

In order to activate the equipment attached to the Company's control systems, the consumer must swipe a valid credit card through the control system. The control system then transmits this request to the credit card processor. The credit card processor verifies that the credit card is valid and authorizes the transaction. The control system then activates the equipment for use by the consumer. Each control system acts as an off-line terminal that has the ability to communicate with the Company. When the consumer has finished using the equipment, the control system transmits a record of the transaction to the Company's computer center and prints a record of the transaction for the consumer. On a daily basis, the Company transmits the transaction information collected from all of its installed control devices to the credit card processor. The credit card processor electronically transfers the proceeds derived from these transactions, less the credit card processor's charge, to the Company. The Company then forwards a check to the location of the equipment representing the location's share of the proceeds along with a report reflecting the usage of each piece of equipment attached to the control systems.

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

For the years ended June 30, 1997 and 1996, the Company has spent approximately \$344,000 and \$224,000, respectively, for the development of its technology. These amounts include the expense of outside consultants and contractors as well as compensation paid to the Company's employees and included in Compensation in the financial statements.

Industry Trends

With trends over the last twenty years indicating an ever increasing customer reliance on the use of credit cards as a method of payment, the Company believes the future of purchasing retail products and services is in credit cards rather than cash. Consumers are constantly searching for ways to purchase quality products and services in the most convenient manner. Examples of this trend include the increasing use of unattended, Automated Teller Machines ("ATM's") in banking transactions and the use of unattended, self-service gasoline pumps with credit and debit card payment capabilities. In addition, consumers are becoming more accustomed to using credit cards as a method of payment in an ever increasing array of retail and service settings. Almost every department store, restaurant and supermarket accepts credit card payments. Consumers are increasingly using mail order, telephone and the Internet to order goods and services and are using credit cards to pay for these goods and services. In response to this increasing consumer demand for convenience and this increasing consumer acceptance of credit cards as a method of payment, the Company has focused its efforts towards developing and marketing its unattended, credit card activated control systems.

The Business Express(TM)

The Company believes that the hotel/motel hospitality industry continues to expand, but has become more competitive as the industry increases its efforts to attract the business traveler. The Company also believes that business travelers and conference attendees account for the majority of hotel occupancy, stay longer and spend more per visit than the leisure traveler. For these reasons, the Company believes that the hospitality industry has become very responsive to the needs of the business traveler. The Business Express(TM) enables a hotel or conference center to offer an unattended business center to its guests. The Business Express(TM) is credit card activated, therefore eliminating the need for an attendant to provide change, process credit cards, or calculate the charges for the use of the equipment.

The Business Express(TM) utilizes the Company's existing control systems for use in connection with computers, photocopying machines, computer printers, and facsimile equipment, and combines them into a branded product. A typical Business Express(TM) unit could include a personal computer and laser printer, a photocopying machine and a facsimile machine, the corresponding control systems, as well as work station furniture. However, a location can custom order its unit to include any combination of equipment and corresponding control system. Furthermore, the location could add additional equipment in the future.

The Company assists the location in the design of the unit, including selecting a layout and furniture for the equipment. To date, the Company has sold business equipment to the locations, has supplied Company owned equipment to the certain locations and has supplied control systems to the location for use with location owned equipment. In all such cases, the Company licenses the control systems to the locations and receives a fixed percentage of the proceeds generated from any transactions. In connection with sales of business equipment, the Company also receives revenues and in some cases receives a monthly administrative fee.

The MBE Express(TM)

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 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. 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 Express(TM). If a customer would not desire to purchase the MBE Express(TM), the Company is permitted to sell to such customer a private label product under any name other than MBE Express(TM). 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 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 Express(TM) would include a dial-through service to a nearby MBE store making available the products and services of the store.

The Copy Express(TM)

Traditionally, customers wishing to use a photocopying machine have either used a prepaid, stored value card or cash. In most circumstances, this places a burden on employees of the facility to provide a number of services unrelated to their primary jobs, such as providing change, coin collecting, coin counting and coin reloading. By utilizing the Copy Express(TM) control system, the location's attendant no longer is required to interact with the customers for these purposes.

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

To date, the Company has licensed the control systems to university and public libraries to be attached to their photocopying machines. The Company receives a fixed percentage of the proceeds generated from any transactions and the location receives the balance of the proceeds. As of June 30, 1997, there were 67 Copy Express(TM) control systems (includes 14 Fax Express(TM)) installed at various locations.

The Debit Express(TM)

Many "closed" environments such as universities utilize a private card system to store cash value known as a debit or "stored value" card. Pursuant thereto, customers transfer lump sum cash values onto a magnetic stripe or imbedded chip card that can be used to activate equipment within the closed environment. As the cardholder uses the card to purchase products or services the cash value is deducted from the total value on the card.

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

To date, the Company has licensed the control system to university libraries to be attached to their debit card purchase/revalue machines. The Company receives a fixed percentage of the proceeds generated from any transactions and the location receives the balance of the proceeds. As of June 30, 1997, there were 34 Debit Express(TM) control systems installed at university libraries.

The Public PC(TM)

The Company's Public PC(TM) (formerly known as the Credit Card Computer Express(TM)) is an unattended, credit card activated control system which can be used in connection with general use of a personal computer, as well as for the use of on-line services, including the Internet, and for the use of a laser printer. The Company believes that the growing dependence on personal computers and related services that are accessed through personal computers, such as the Internet and e-mail, has created an environment where there is a need for access to personal computers by the general public on an "as needed" basis. The Company's control system enables locations such as public libraries, hotels and convention centers, airports and retail locations to offer the use of personal computers to the public on an "as needed" basis utilizing credit cards as a method of payment. The Public PC(TM) is designed so that an attendant is not required to process credit card transactions, provide change, or calculate charges for the use of the equipment.

The Company licenses its control system to locations to be attached to their personal computers. Alternatively, the Company may supply the location with a computer system owned by the Company and license the control system to the location for use with the Company's equipment. The Company receives a fixed percentage of the proceeds generated from any transactions and the location receives the balance thereof.

During fiscal 1997, the Company commenced selling personal computers and laser printers to the locations in addition to only licensing the control system. See "Business - Marketing." In connection with any such sales, the Company would realize revenues from the sale of the equipment and also receive a percentage of the proceeds generated from any credit card transactions. In addition, in some cases, the Company receives a negotiated monthly administrative fee.

As of June 30, 1997, there were 54 Public PC(TM) control systems installed at various public libraries, hotels and retail locations.

Marketing

The Company is currently marketing its products through its full-time sales staff consisting of 4 persons, either directly to locations or through facility management companies servicing the 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 stores in North America. The joint venture shall exclusively sell and market unattended, credit card activated business centers under the name MBE 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. 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 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 marketing and sales expenses would be split equally between the Company and MBE. 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 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 Express(TM) would include a dial-through service to a nearby MBE store making available the products and services of the store.

The Company has entered into corporate agreements which establish itself as a preferred supplier of business center products to two of the top hospitality companies in the world: Choice Hotels International (Clarion, Quality, Comfort, Sleep Inns), and Promus Hotel Corporation (Embassy Suites, Hampton, Doubletree). In addition, the Company's Business Express(TM) has been approved and recommended as a solution by Marriott for its hotels.

In March 1997, the Company entered into a co-marketing agreement with Minolta Corporation ("Minolta") pursuant to which the Company and Minolta would work together to market and sell the Business Express(TM) featuring the Minolta copier to the hospitality industry. The agreement is on a nonexclusive basis and can be terminated by either party on thirty days notice.

In March 1997, the Company entered into a co-marketing agreement with Lexmark International, Inc. ("Lexmark") pursuant to which the Company and Lexmark would work together to market and sell the Business Express(TM) featuring the Lexmark printer to the hospitality industry. The agreement is on a nonexclusive basis and can be terminated by either party on thirty days notice.

In December 1996, the Company entered into an agreement with International Business Machines Corporation ("IBM") pursuant to which it was appointed an IBM Business Partner-Personal Computer Reseller. This agreement will allow the Company to purchase IBM personal computers at a wholesale price for resale to its customers as a configured Public PC(TM) that is credit card activated. The agreement can be terminated by either party on thirty days notice.

During February 1996, the Company entered into an agreement with Dell Marketing, L.P., a subsidiary of Dell Computer Corporation ("Dell"), pursuant to which the Company was appointed as a Dell authorized

"Remarketer/Integrator". This agreement allows the Company to purchase Dell personal computers at a wholesale price for resale to its customers. The agreement can be terminated by either party upon thirty days notice. To date, the Company has ordered 54 computers from Dell, all of which have been paid for and received by the Company.

In December 1996, the Company was designated as an authorized "Hewlett-Packard Value-Added Reseller," pursuant to which the Company may purchase Hewlett-Packard facsimile machines at a wholesale price for resale to its customers. The agreement can be terminated by either party upon thirty days notice.

The Company believes these agreements are an important component of the Company's effort to market the Business Express(TM) to the hospitality industry because they provide instant brand name recognition. In addition, each of these companies offers maintenance and service agreements relating to the equipment directly to the location, thus removing the need for the Company to provide maintenance services or warranties to any of the equipment (other than the control systems).

Procurement

The Company's control system devices consist of a card reader, printer, amplifier, circuit board and micro chip in a specially designed housing. The control systems are currently manufactured to the Company's design specifications by an independent contractor, LMC Autotech Technologies, L.P. ("LMC"). The Company anticipates that LMC will be able to meet its future control system supply needs.

The Company anticipates obtaining computer hardware and other business equipment (other than the Company's control systems) from Dell, Hewlett-Packard, Minolta, Lexmark or IBM pursuant to the agreements entered into with each of these companies. See "Business -- Marketing."

Competition

There are other companies presently offering unattended, credit card activated control devices in connection with facsimile machines, personal computers, Internet and e-mail access, and debit card purchase/revalue stations which are in direct competition with the Company's products. In addition, the businesses which have developed unattended, credit card activated control systems currently in use in connection with gasoline dispensing, public telephones, prepaid telephone cards, ticket dispensing machines, or vending machines, are capable of utilizing their control systems in direct competition with the Company. Many of these businesses are well established, have substantially greater resources than the Company and have established reputations for success in the development, sale and service of high quality products. Such competition may result in lower percentages of gross revenues being retained by the Company in connection with its licensing arrangements, or otherwise may reduce potential profits or result in a loss of some or all of its customer base. To the extent the Company's competitors are able to offer more attractive technology, the Company's ability to compete could be materially and adversely affected. The Company is also aware of several businesses which make available use of the Internet and use of personal computers to hotel guests in their hotel rooms on an "as-needed" basis. Although these services are not credit card activated, such services would compete with the Company's Business Express(TM), and the locations may not order the Business Express(TM), or if ordered, the hotel guest may not use it. See "Risk Factors -- Competition."

Patents, Trademarks and Proprietary Information

The Company has applied for federal registration of its trademarks Business Express(TM), Computer Express(TM), Fax Express(TM), TransAct(TM), Copy Express(TM), C3X(TM), Printer Express(TM), and Debit Express(TM). There can be no assurance, however, that any of such applications will be granted or that the Company will continue to maintain or prosecute all of such applications.

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

The Company has applied for ten United States letters patent related to its cashless vending technology, and has applied for certain corresponding foreign letters patent in connection therewith. In April 1997, the United States Patent Office granted the Company's patent number 5,619,024 entitled "Credit Card and Bank Issued Debit Card Operated System and Method for Controlling and Monitoring Access of Computer and Copy Equipment." In June 1997, the United States Patent Office granted the Company's patent number 5,637,845 entitled "Credit and Bank Issued Debit Card Operated System and Method For Controlling a Prepaid Card Encoding/Dispensing Machine." As of the date hereof, the remaining eight applications are pending and have not been granted. There can be no assurance that the Company will continue to maintain and prosecute the remaining pending applications. See "Risk Factors - Dependence on Proprietary Technology; Patent Issues."

Employees

As of June 30, 1997, the Company had seventeen full-time employees.

Properties

The Company leases its principal executive offices, consisting of approximately 7,000 square feet, at 200 Plant Avenue, Wayne, Pennsylvania for a monthly rental of \$5,000 plus utilities and operating expenses. The lease expires on October 15, 1999.

Legal Proceedings

The Company is not a party to any material legal proceedings.

MANAGEMENT

Directors and Executive Officers

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

Name ----	Age ---	Position(s) Held -----
George R. Jensen, Jr.	48	President, Chief Executive Officer, Chairman of the Board of Directors
Stephen P. Herbert	34	Executive Vice President - Sales and Marketing, Director
Haven Brock Kolls, Jr.	32	Vice President - Research and Development
Keith L. Sterling	45	Executive Vice President - Operations, Secretary, Director
Leland P. Maxwell	50	Senior Vice President, Chief Financial Officer, Treasurer
Peter G. Kapourelou	77	Director
William W. Sellers	76	Director
Henry B. duPont Smith	36	Director
William L. Van Alen, Jr.	64	Director

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

George R. Jensen, Jr., has been the President, Chief Executive Officer, and Director of the Company since January 1992. Mr. Jensen is the founder, and was Chairman, Director, and Chief Executive Officer of American Film Technologies, Inc. ("AFT") from 1985 until 1992. AFT was in the business of creating color imaged versions of black-and-white films. From 1979 to 1985, Mr. Jensen was Chief Executive Officer and President of International Film Productions, Inc. Mr. Jensen was the Executive Producer of the twelve hour miniseries, "A.D.", a \$33 million dollar production filmed in Tunisia. Procter and Gamble, Inc., the primary source of funds, co-produced and sponsored the epic, which aired in March 1985 for five consecutive nights on the NBC network. Mr. Jensen was also the Executive Producer for the 1983 special for public television, "A Tribute to Princess Grace". From 1971 to 1978, Mr. Jensen was a securities broker, primarily for the firm of Smith Barney, Harris Upham. Mr. Jensen was chosen 1989 Entrepreneur of the Year in the high technology category for the Philadelphia, Pennsylvania area by Ernst & Young LLP and Inc. Magazine. Mr. Jensen received his Bachelor of Science Degree from the University

of Tennessee and is a graduate of the Advanced Management Program at the Wharton School of the University of Pennsylvania.

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

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

Keith L. Sterling joined the Company on a full-time basis as Executive Vice President-Operations and Secretary on July 1, 1993 and was elected to the Board of Directors on May 12, 1995. On December 1, 1996, Mr. Sterling was appointed Chief Financial Officer and Treasurer on an interim basis through February 24, 1997. Mr. Sterling is part owner, and from October 1987 to July 1, 1993, was the Chief Executive Officer of Radnor Commonwealth Equities, Inc., a Washington, D.C. asset-based investment/consulting firm. He co-founded that firm in 1987. From 1980 to 1987, Mr Sterling held various positions with MHB Companies, Inc., a national investment-development company headquartered in Houston, Texas, including Executive Vice President. Mr. Sterling graduated with a Bachelor of Science degree in Economics from Susquehanna University.

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

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

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

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

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

Executive Compensation

The following table sets forth certain information with respect to compensation paid or accrued by the Company during the fiscal years ended June 30, 1995, June 30, 1996 and June 30, 1997 to the individual acting in the capacity of Chief Executive Officer of the Company. No individual who was serving as an executive officer of the Company at the end of the fiscal years ended June 30, 1995, June 30, 1996 or June 30, 1997 received salary and bonus in excess of \$100,000 in any such fiscal year.

Summary Compensation Table

Name and Principal Position -----	Fiscal Year -----	Annual Compensation -----	
		Salary -----	Bonus -----
George R. Jensen, Jr., Chief Executive Officer, President	1997	\$100,000	\$0
	1996	\$90,000	\$0
	1995	\$90,000	\$0

Executive Employment Agreements

The Company has entered into an employment agreement with Mr. Jensen which expires June 30, 1998. The Agreement is automatically renewed from year to year unless canceled by Mr. Jensen or the Company. The agreement provides for an annual base salary of \$100,000 per year. Mr. Jensen is entitled to receive such bonus or bonuses as may be awarded to him by the Board of Directors. In determining whether to pay such a bonus, the Board would use its subjective discretion. The Agreement requires Mr. Jensen to devote his full time and attention to the business and affairs of the Company, and obligates him not to engage in any investments or activities which would compete with the Company during the term of the Agreement and for a period of one year thereafter.

The Company has entered into a one-year employment agreement with Mr. Herbert which expires on April 30, 1998. The agreement is automatically renewed from year to year thereafter unless canceled by Mr. Herbert or the Company. The Agreement provides for an annual base salary of \$90,000 per year, provided, that Mr. Herbert's base salary shall never be less than ninety percent of that of the Chief Executive Officer of the Company. Mr. Herbert is entitled to receive such bonus or bonuses as the Board of Directors may award to him. The Agreement

requires Mr. Herbert to devote his full time and attention to the business and affairs of the Company and obligates him not to engage in any investments or activities which would compete with the Company during the term of the agreement and for a period of one year thereafter.

Mr. Sterling has entered into a one-year employment agreement with the Company which expires on June 30, 1998. The agreement is automatically renewed from year to year thereafter unless cancelled by Mr. Sterling or the Company. The Agreement provides for an annual base salary of \$90,000 per year and provides that Mr Sterling is entitled to receive such bonus or bonuses as the Board of Directors may award to him. The agreement requires Mr. Sterling to devote his full time and attention to the business and affairs of the Company, and obligates him not to engage in any investments or activities which would compete with the Company during the term of the agreement and for a period of one year thereafter.

Mr. Kolls has entered into a one-year employment agreement with the Company which expires on April 30, 1998, and is automatically renewed from year to year thereafter unless canceled by Mr. Kolls or the Company. The agreement provides for an annual base salary of \$90,000 per year. Mr. Kolls is also entitled to receive such bonus or bonuses as may be awarded to him by the Board of Directors. The Agreement requires Mr. Kolls to devote his full time and attention to the business and affairs of the Company, and obligates him not to engage in any investments or activities which would compete with the Company during the term of his agreement and for a period of one year thereafter.

Mr. Maxwell has entered into a one-year employment agreement with the Company which expires on February 28, 1998, and is automatically renewed from year to year thereafter unless cancelled by Mr. Maxwell or the Company. The agreement provides for an annual base salary of \$85,000 per year, provided, that Mr. Maxwell's base salary shall never be less than eighty-five percent of that of the Chief Executive Officer of the Company. Mr. Maxwell is also entitled to receive such bonus or bonuses as the Board of Directors may award to him. The Agreement requires Mr. Maxwell to devote his full time and attention to the business and affairs of the Company, and obligates him not to engage in any investments or activities which would compete with the Company during the term of the agreement and for a period of one year thereafter.

Director Compensation and Stock Options

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

In April 1993, Messrs. Kapourellos and Sellers each purchased 100,000 shares of Common Stock from the Company at a purchase price of \$.001 per share. In June 1993, Mr. Van Alen purchased 100,000 shares of Common Stock from the Company at a purchase price of \$.001 per share.

In July 1993, the Company issued to each of Messrs. Kapourellos, Sellers, and Van Alen fully vested options to purchase 100,000 shares of Common Stock at an exercise price of \$.25 per share. The options must be exercised on or before June 30, 1998.

In March 1995, the Company issued to Mr. Smith fully vested options to purchase 100,000 shares of Common Stock, to Mr. Sellers fully vested options to purchase 55,000 shares of Common Stock, to Mr. Kapourellos fully vested options to purchase 70,000 shares of Common Stock, and to Mr. Van Alen fully vested options to purchase 25,000 shares of Common Stock. The exercise price of these options is \$.25 per share and they must be exercised on or before February 29, 2000.

The Company paid to William W. Sellers the amount of \$76,600 for consulting services rendered by Mr. Sellers to the Company during the fiscal year ended June 30, 1996.

The Company paid to Peter G. Kapourellos the amount of \$22,000 for consulting services rendered by Mr. Kapourellos to the Company during the fiscal year ended June 30, 1996.

Executive Stock Options

In July 1993, the Company issued to Keith L. Sterling and Edward J. Sullivan, a former officer of the Company, options to purchase shares of Common Stock at an exercise price of \$.25 per share. The options must be exercised within five years of the vesting thereof. Mr. Sterling received options to acquire 200,000 shares of Common Stock, 100,000 of which vested on June 30, 1994, and 100,000 of which vested on June 30, 1995. Mr. Sullivan was granted options to acquire 100,000 shares of Common Stock, 50,000 of which vested on June 30, 1994, and 50,000 of which vested on June 30, 1995.

In August 1994, the Company issued to Mr. Kolls options to acquire 50,000 shares of Common Stock at an exercise price of \$.25 per share, 25,000 of which vested on April 30, 1995, and 25,000 of which vested on April 30, 1996.

In August 1994, the Company issued to Mr. Barry Slawter, a former officer of the Company, options to acquire 200,000 shares of Common Stock at an exercise price of \$.25 per share, 50,000 of which vested on February 1, 1995, 50,000 of which vested on May 1, 1995, 50,000 of which vested on August 1, 1995, and 50,000 of which vested on November 1, 1995. The options must be exercised within five years after vesting.

In March 1995, the Company issued to Mr. Sterling fully vested options to acquire 100,000 shares of Common Stock at \$.25 per share exercisable on or before February 29, 2000.

In March 1995, the Company issued to Mr. Kolls options to acquire 150,000 shares of Common Stock, at an exercise price of \$.25 per share, 75,000 of which vested on April 30, 1995, and 75,000 of which vested on April 30, 1996. These options must be exercised within five years after vesting.

In June 1995, the Company issued to Mr. Slawter fully vested options to acquire 10,000 shares of Common Stock at an exercise price of \$.25 per share. Such options must be exercised within five years.

In March 1996, the Company issued to Mr. Kolls options to acquire up to 50,000 shares of Common Stock at an exercise price of \$.65 per share, all of which will vest if he is employed on April 30, 1997. In November 1996, the exercise price of the options was reduced to \$.45. The options must be exercised within five years of vesting.

In April 1996, the Company issued to Mr. Herbert options to acquire up to 400,000 shares of Common Stock at an exercise price of \$.65 per share. In November 1996, the exercise price of the options was reduced to \$.45. Subject to Mr. Herbert's continued employment with the Company, the options will become vested over a three year period, 200,000 during the first year, and 100,000 during each year thereafter, in quarterly intervals. The options must be exercised within five years of vesting.

In May 1996, the Company issued to Mr. Sterling options to acquire up to 50,000 shares of Common Stock at an exercise price of \$.65 per share, all of which vested on June 30, 1997. In November 1996, the exercise price of the options was reduced to \$.45. The options must be exercised within five years of vesting.

In May 1996, the Company issued to Mr. Sullivan, a former officer of the Company, options to acquire up to 50,000 shares of Common Stock at an exercise price of \$.65 per share, all of which were to vest if he was employed by the Company on June 30, 1997. In December 1996, in conjunction with Mr. Sullivan's separation of employment with the Company, the Company agreed that 21,000 of these options became vested at such time and the remainder would be cancelled. See "Management - Officer Terminations." The options must be exercised within five years of vesting.

In February 1997, the Company issued to Mr. Maxwell options to acquire up to 200,000 shares of Common Stock at an exercise price of \$.45 per share. Subject to Mr. Maxwell's continued employment with the Company, the options will become vested over a two year period at the rate of 25,000 options per quarter. The options must be exercised within five years of vesting.

In June 1997, the Company issued to Mr. Kolls options to acquire up to 100,000 shares of Common Stock at an exercise price of \$.45 per share. Subject to Mr. Kolls' continued employment with the Company, the options will become vested over a one year period at the rate of 25,000 options per quarter.

In June 1997, the Company issued to Mr. Sterling options to acquire up to 100,000 shares of Common Stock at an exercise price of \$.45 per share. Subject to Mr. Sterling's continued employment with the Company, the options will become vested over a one year period at the rate of 25,000 options per quarter.

In June 1997, the Company issued to Mr. Herbert options to acquire up to 100,000 shares of Common Stock at an exercise price of \$.45 per share. Subject to Mr. Herbert's continued employment with the Company, the options will become vested over a one year period at the rate of 25,000 options per quarter.

The Board of Directors is responsible for awarding stock options. Such awards are made in the subjective discretion of the Board. The exercise price of all the above options represents on the date of issuance of such options an amount equal to or in excess of the market value of the Common Stock issuable upon the exercise of the options. All of the foregoing options are non-qualified stock options and not part of a qualified stock option plan and do not constitute incentive stock options as such term is defined under Section 422 of the Internal Revenue Code, as amended, and are not part of an employee stock purchase plan as defined in Section 423 thereunder.

PRINCIPAL SHAREHOLDERS

Common Stock

The following table sets forth, as of June 30, 1997, the beneficial ownership of the Common Stock of each of the Company's directors and executive officers, as well as by the Company's directors and executive officers as a group. Except as set forth below, the Company is not aware of any beneficial owner of more than five percent of the Common Stock. Except as otherwise indicated, the Company believes that the beneficial owners of the Common Stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable.

Name and Address of Beneficial Owner -----	Number of Shares of Common Stock Beneficially Owned(1) -----	Percent of Class(2) -----
George R. Jensen, Jr. 10 Fox Chase Road Malvern, Pennsylvania 19355	7,753,000 shares(3)	14.2%
Stephen P. Herbert 536 West Beach Tree Lane Strafford, Pennsylvania 19087	225,000 shares (4)	*
Haven Brock Kolls, Jr. 150 Westridge Gardens Phoenixville, Pennsylvania 19460	266,500 shares(5)	*
Keith L. Sterling 114 South Valley Road Paoli, Pennsylvania 19033	450,000 shares(6)	*
Leland P. Maxwell 129 Windham Drive Langhorne, Pennsylvania 19047	50,000 shares (7)	*
Peter G. Kapourellos 1515 Richard Drive West Chester, Pennsylvania 19380	315,000 shares(8)	*
William W. Sellers 394 East Church Road King of Prussia, Pennsylvania 19406	1,011,950 shares(9)	1.9%
Henry B. duPont Smith 350 Mill Bank Road Bryn Mawr, Pennsylvania 19010	400,000 shares(10)	*
William L. Van Alen, Jr. Cornerstone Entertainment, Inc. P.O. Box 727 Edgemont, Pennsylvania 19028	225,000 shares(11)	*
All Directors and Executive Officers As a Group (9 persons)	10,696,450 shares(12)	19.6%

*Less than one percent (1%)

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and derives from either voting or investment power with respect to securities. Shares of Common Stock issuable upon conversion of the Preferred Stock, or shares of Common Stock issuable upon exercise of options currently exercisable, or exercisable within 60 days of June 30, 1997, are deemed to be beneficially owned for purposes hereof.

(2) For purposes of computing the percentages under this table, it is assumed that all shares of issued and outstanding Preferred Stock have been converted into 10,334,460 shares of Common Stock, that all of the options or purchase rights to acquire Common Stock which have been issued and are fully vested as of June 30, 1997 (or within 60-days of June 30, 1997) have been converted into 3,353,300 shares of Common Stock. Of the 4,128,300 options or purchase rights to acquire Common Stock issued as of June 30, 1997, only 775,000 of such options do not become vested within 60-days thereof, and such options are excluded from this table. For purposes of computing such percentages it has also been assumed that all of the remaining 1995 Warrants have been exercised for 1,414,000 shares of Common Stock, all of the remaining 1996 Warrants have been exercised for 1,998,000 shares of Common Stock, that all of the 1996-B Warrants have been exercised for 374,000 shares of Common Stock, that all of the 1997 Warrants have been exercised for 1,600,000 shares of Common Stock, that all of the warrants issued to affiliates and/or consultants to GEM Advisors, Inc. have been exercised for 2,000,000 shares of Common Stock, and all of the accrued and unpaid dividends on the Preferred Stock as of June 30, 1997 have been converted, into 3,418,176 shares of Common Stock. Therefore, for purposes of computing the percentages under this table, there are 54,461,870 shares of Common Stock issued and outstanding.

(3) Includes 6,000,000 shares of Common Stock held by Mr. Jensen with his minor children as joint tenants with right of survivorship. Includes 160,000 shares of Common Stock issuable upon conversion of the 16,000 shares of Preferred Stock owned by him. An aggregate of 4,365,000 shares of Common Stock (or under certain circumstances 1,030,000 shares of Common Stock) beneficially owned by Mr. Jensen are subject to cancellation and are included in this table. See "Escrow and Cancellation Arrangements."

(4) Includes 225,000 shares of Common Stock issuable to Mr. Herbert upon the exercise of options. Does not include 275,000 shares of Common Stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of June 30, 1997.

(5) Includes 6,000 shares of Common Stock issuable upon the conversion of 500 shares of Preferred Stock beneficially owned by Mr. Koll (based upon the 12 to 1 conversion rate that is in effect through December 31, 1997, subsequent to which this amount will revert to 5,000 shares). Includes 250,000 shares of Common Stock issuable upon exercise of options. Does not include 100,000 shares of Common Stock issuable pursuant to options not presently exercisable and not exercisable within 60-days of June 30, 1997.

(6) All shares of Common Stock held by Mr. Sterling on the date hereof are held with his spouse as joint tenants with right of survivorship. Includes 350,000 shares of Common Stock issuable upon exercise of options. Does not include 100,000 shares of Common Stock issuable pursuant to options not presently exercisable and not exercisable within 60-days of June 30, 1997.

(7) Includes 50,000 shares of Common Stock issuable to Mr. Maxwell upon the exercise of options. Does not include 150,000 shares of Common Stock issuable pursuant to options not presently exercisable and not exercisable within 60 days of June 30, 1997.

(8) Includes 12,000 shares of Common Stock issuable upon the conversion of 1,000 shares of Preferred Stock beneficially owned by Mr. Kapourellos (based upon the 12 to 1 conversion rate that is in effect through December 31, 1997, subsequent to which this amount will revert to 10,000 shares). Includes 30,000 shares of Common Stock held on the date hereof by Mr. Kapourellos with his spouse as joint tenants with right of survivorship. Includes 170,000 shares of Common Stock issuable upon exercise of options.

(9) Includes 176,700 shares of Common Stock issuable upon the conversion of 14,725 shares of Preferred Stock beneficially owned by Mr. Sellers (based upon the 12 to 1 conversion rate that is in effect through December 31, 1997, subsequent to which this amount will revert to 147,250). Includes an aggregate of 141,750 shares of Common Stock issuable upon exercise of the 1995 Warrants beneficially owned by him. Of such 1995 Warrants, 60,000 are owned by the Sellers Pension Plan of which Mr. Sellers is a trustee, 30,000 are owned by Sellers Process Equipment Company of which he is a Director, and 15,000 are owned by his wife. Includes an aggregate of 120,000 1996 Warrants beneficially owned by him, of which 80,000 are owned by the Sellers Pension Plan and 40,000 are owned by his wife. Includes 6,000 shares of Common Stock owned by Sellers Pension Plan, 4,500 shares of Common Stock owned by Sellers Process Equipment Company, and 28,000 shares of Common Stock owned by Mr. Seller's wife. Includes 155,000 shares of Common Stock issuable upon exercise of options.

(10) Includes 144,000 shares of Common Stock issuable upon conversion of the 12,000 shares of Preferred Stock beneficially owned by Mr. Smith (based upon the 12 to 1 conversion rate that is in effect through December 31, 1997, subsequent to which this amount will revert to 147,250). Includes 100,000 shares of Common Stock issuable upon exercise of options. Includes 80,000 shares of Common Stock issuable upon conversion of the 1996 Warrants held by trusts for the benefit of Mr. Smith's children of which he is a trustee.

(11) Includes 125,000 shares of Common Stock issuable to Mr. Van Alen upon exercise of options.

(12) Includes all shares of Common Stock described in footnotes (2) through (11) above.

Preferred Stock

The following table sets forth, as of June 30, 1997 the beneficial ownership of the Preferred Stock by the Company's directors and executive officers, as well as by the Company's directors and executive officers as a group. Except as set forth below, the Company is not aware of any beneficial owner of more than five percent of the Preferred Stock. Except as otherwise indicated, the Company believes that the beneficial owners of the Preferred Stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable.

Name and Address of Beneficial Owner -----	Number of Shares of Preferred Stock Beneficially Owned -----	Percent of Class(1) -----
George R. Jensen, Jr. 10 Fox Chase Road Malvern, Pennsylvania 19355	16,000	1.9%
Haven Brock Kolls, Jr. 150 West Ridge Gardens Phoenixville, Pennsylvania 19460	500	*
Peter G. Kapourellos 1515 Richard Drive West Chester, Pennsylvania 19380	1,000	*
William W. Sellers 394 East Church Road King Of Prussia, Pennsylvania 19406	14,725(2)	1.7%
Henry B. duPont Smith 350 Mill Bank Road Bryn Mawr, Pennsylvania 19010	12,000(3)	1.4%
All Directors and Executive Officers As a Group (9 persons) (4) -----	44,225	5.1%

*Less than one percent (1%)

(1) There were 861,205 shares of Preferred Stock issued and outstanding as of June 30, 1997.

(2) Includes 4,000 shares of Preferred Stock owned by Sellers Pension Plan of which Mr. Seller is a trustee, 1,000 shares of Preferred Stock owned by Sellers Process Equipment Company of which Mr. Sellers is a Director, and 2,000 shares of Preferred Stock owned by his wife.

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

(4) As of June 30, 1997, Messrs. Van Alen, Herbert, Maxwell and Sterling did not beneficially own any shares of Preferred Stock.

Escrow And Cancellation Arrangements

In January 1994, at the time of the Company's initial public offering, and as a condition of effectiveness of the offering in Pennsylvania, the Pennsylvania Securities Commission requested that Mr. Jensen place in escrow with CoreStates Bank (formerly Meridian Bank), as escrow agent, all of the 7,593,000 shares of Common Stock beneficially owned by him until June 30, 1998. Any additional shares of Common Stock acquired by him will also be held in escrow. Subject to the provisions of the escrow agreement, Mr. Jensen has

agreed not to sell, pledge, or transfer, directly or indirectly, any of the Common Stock held in escrow.

The escrow agreement provides that it shall be terminated prior to June 30, 1998, and all of Mr. Jensen's shares of Common Stock currently held in escrow shall be released and returned to him in the event of any dissolution, merger, consolidation, sale of assets, stock sale, liquidation, tender offer, exchange offer, or otherwise of or to the Company or its shareholders. In connection with any such event, Mr. Jensen would not receive any consideration for his shares of Common Stock unless and until each shareholder (other than Mr. Jensen) has received an amount equal to \$1.00 per share of Common Stock.

Mr. Jensen has agreed that 4,365,000 shares of his escrowed Common Stock would be canceled by the Company and would no longer be issued and outstanding unless one of the following occurs: (i) the bid price of the Common Stock equals or exceeds \$1.75 for 30 consecutive trading days at any time during the period of July 1, 1996 through June 30, 1998; or (ii) the Company's cumulative operating income (before taxes, dividends, or extraordinary items) per share of Common Stock (on a fully diluted basis) at any time after July 1, 1994, through June 30, 1998, equals or exceeds \$.18. Mr. Jensen has agreed that an amount equal to 1,030,000 shares of his escrowed Common Stock (rather than 4,365,000 shares) would be canceled if at any time after July 1, 1994 and prior to June 30, 1998, the Company's cumulative operating income per share of Common Stock is at least \$.12 but less than \$.18. See "Risk Factors - Charge to Income in the Event of Release of Escrow Shares."

Subject to the terms of the escrow agreement, Mr. Jensen's Common Stock will be held in escrow until the earlier of the satisfaction of any of the above conditions (in which event no shares, or only 1,030,000 shares, would be canceled), or June 30, 1998. Unless and until any such shares would be canceled, and subject to the restrictions on sale or transfer pursuant to the escrow arrangement, Mr. Jensen has retained all rights pertaining to such shares, including voting rights.

Prior to the date hereof, Mr. Jensen cancelled an aggregate of 2,305,000 shares of Common Stock which had been owned by him and which had been held in escrow and were subject to cancellation pursuant to the above arrangements. See "Certain Transactions." Prior to such cancellation, a maximum of 6,670,000 shares (rather than 4,365,000 shares as currently provided) were subject to cancellation.

In January 1994, at the time of the Company's initial public offering, and as a condition of effectiveness of the offering in Pennsylvania, the Pennsylvania Securities Commission also requested that all of the Directors and executive officers of the Company (in addition to Mr. Jensen) place in escrow all of the shares of Common Stock owned or to be owned by them until January 5, 1997. As set forth above, Mr. Jensen's shares of Common Stock are to remain in escrow until June 30, 1998. The escrow agreement provided that such escrowed shares could not be sold, pledged or transferred. On January 5, 1997 all of such shares of Common Stock were released from escrow, returned to their respective owner, and are no longer subject to the terms of the escrow agreement. An aggregate of 1,009,500 shares of Common Stock were released from escrow and only Mr. Jensen's shares remain in escrow.

Pennsylvania is a so-called "merit review" state pursuant to which state regulators had broad discretion to impose conditions upon the Company in connection with its initial public offering in Pennsylvania. The staff of the Pennsylvania Securities Commission believed that the amount of Common Stock and options to acquire Common Stock that had been issued to the Directors and executive officers by the Company at the time of the initial public offering exceeded the amount permitted by its informal guidelines, and therefore requested the cancellation arrangements relating to Mr. Jensen's shares described above. In addition, the staff believed that all such Common Stock constituted "promotional securities" and requested that all such Common Stock be placed in escrow for three years (and that Mr. Jensen's shares be subject to the escrow arrangement for a longer period).

Convertible Securities Escrow Agreement

At the time of the issuance of an aggregate of \$500,000 of Convertible Securities in June 1997, the Company issued an aggregate of 2,500,000 shares of Common Stock to Lurio & Associates, as Escrow Agent, to be held pursuant to the terms of an escrow agreement. The shares of Common Stock are being issued and held in escrow in order to ensure that they are available to the holders of the Convertible Securities upon conversion of the Convertible Securities. During August and September 1997, the holders of \$430,000 of the Convertible Securities converted their securities into 1,568,517 shares of Common Stock, leaving 350,000 shares of Common Stock held in escrow. See "Description of Securities - Convertible Debentures and Related Warrants."

CERTAIN TRANSACTIONS

In February 1996, Mr. Jensen cancelled 305,000 shares of Common Stock owned by him and which had been held in escrow. See "Principal Shareholders - Escrow And Cancellation Arrangements".

In March 1996, the Company issued to Mr. Kolls options to acquire up to 50,000 shares of Common Stock at \$.65 per share. See "Management-Executive Stock Options."

In April 1996, the Company issued to Mr. Herbert options to acquire up to 400,000 shares of Common Stock at \$.65 per share. In May 1996, the Company issued to Mr. Sterling options to acquire up to 50,000 shares of Common Stock at \$.65 per share and issued to Edward J. Sullivan, a former officer of the Company, options to acquire up to 50,000 shares of Common Stock at \$.65 per share. See "Management- Executive Stock Options" and "Management - Officer Terminations."

At June 30, 1997 and 1996 and December 31, 1996, approximately \$27,000, \$14,000 and \$30,000, respectively, of the Company's accounts payable are due to several shareholders for various legal and technical services performed.

During July 1996, the Company formalized certain agreements with William W. Sellers and Peter G. Kapourellos, two Directors of the Company, who performed consulting services during fiscal year 1996. During the year ended June 10, 1996, \$98,600 was paid for such services performed.

In September 1996, the Company issued to Joseph Donahue, an employee of the Company, options to purchase up to 50,000 shares of Common Stock at \$.45 per share.

In November 1996, the Company issued to Michael Feeney, an employee of the Company, options to purchase up to 10,000 shares of Common Stock at \$.50 per share.

In November 1996, the Company reduced the exercise price of the 50,000 options issued to Mr. Kolls in March 1996, the 400,000 options issued to Mr. Herbert in April 1996 and the 50,000 options issued to Mr. Sterling in May 1996 from \$.65 to \$.45.

In February 1997, the Company issued to Mr. Maxwell options to purchase up to 200,000 shares of Common Stock at \$.45 per share.

In June 1997, the Company issued to Mr. Kolls options to acquire up to 100,000 shares of Common Stock at \$.45 per share, to Mr. Sterling options to acquire up to 100,000 shares of Common Stock at \$.45 per share and to Mr. Herbert options to acquire up to 100,000 shares of Common Stock at \$.45 per share. See "Management - Executive Stock Options."

Mr. Jensen may be deemed a "promoter" of the Company as such term is defined under the Federal securities laws.

SELLING SHAREHOLDERS

Each of the Selling Shareholders listed below is, as of the date hereof, the holder of 1995 Warrants to acquire the number of shares of Common Stock set forth opposite such Selling Shareholder's name or has exercised the 1995 Warrants for the number of shares of Common Stock set forth opposite such Selling Shareholder's name. The 1995 Warrants were issued by the Company to the Selling Shareholders in June and July 1995 pursuant to a transaction exempt from the registration requirements of the Act and various state securities laws. The 1995 Warrants are exercisable at any time through January 31, 2001, unless such period is extended by the Company.

Through June 30, 1997, the Selling Shareholders have exercised 1995 Warrants for a total of 3,686,000 shares of Common Stock generating gross proceeds of \$1,105,800. All of such 1995 Warrants were exercised at \$.30. The issuance by the Company of the Common Stock to the Selling Shareholders upon exercise of the 1995 Warrants is pursuant to the 1995 Warrant Agreement in a transaction exempt from the registration requirements of the Act and various state securities laws. The Company has agreed, at its expense, to register the Common Stock for resale by the Selling Shareholders under the Act and various state securities laws. The Company expects to incur expenses of approximately \$60,000 in connection with the registration. The Common Stock may be sold from time to time by the Selling Shareholders pursuant to this Prospectus. See "Plan of Distribution".

The following table sets forth information with respect to each Selling Shareholder and the respective amounts of Common Stock that may be offered pursuant to this Prospectus. None of the Selling Shareholders has, or within the past three years has had, any position, office or other material relationship with the Company, except as noted below. Except as specifically set forth below, following the offering, and assuming all of the Common Stock offered hereby has been sold, none of the Selling Shareholders will beneficially own one percent (1%) or more of the Common Stock.

Selling Shareholder -----	Common Stock Offered Hereby -----	Beneficial Ownership After Offering (1) -----	
		Number -----	Percent -----
Vanda G. Adams	15,000		
George M. Ahrens	30,000		
Mr. and Mrs. James Allen, Jr.	30,000		
Eleanor S. Allshouse	30,000		
Mr. and Mrs. Gordon L. Angell	60,000		
Charles W. & Katherine K. Apple Trust	24,000		
Robert S. Appleby	60,000		
Richard M. Appleby	60,000		
John P. Ayers	24,000		
Jody Marjorie Baker	15,000		
Judy Ballard, IRA	15,000		
Alan A. Ballard	30,000		
Judith C. Ballard	37,500		
Mr. and Mrs. Charles M. Barclay	60,000		
Mr. and Mrs. Thomas B. Basile	30,000		
Robert R. Batt, Jr.	6,000		
William Bauder	31,500		
Dr. C. Gottfried Baumann	30,000		

Selling Shareholder -----	Common Stock Offered Hereby -----	Beneficial Ownership After Offering (1) -----	
		Number -----	Percent -----
Peggy Longstreth Bayer	9,000		
Alexander R. Beard	6,000		
Robert E. Beck	3,000		
Wanda K. Benbow, IRA	9,000		
William E. Benbow, IRA	21,000		
Catherine M. Bigoney	30,000		
Kathlyne K. Birdsall	30,000		
Alexandra O. Bjorklund Trust	30,000		
Donald F. Blackburn	30,000		
Mr. & Mrs. Louis Bodo	60,000		
Frederick L. Bowden	7,500		
Edwin R. Boynton	15,000		
Dr. James R. Boynton, M.D., P.C., Pension Trust	60,000		
Paul J. Braun	30,000		
Dr. Kent D.W. Bream	12,000		
Carolyn C. Bream	12,000		
Gwen A. Brewster	15,000		
Mr. & Mrs. James H. Burdick	60,000		
Mr. & Mrs. David O. Burdick	30,000		
Mr. & Mrs. James H. Burdick, Jr.	30,000		
Dr. James A. Burke	3,000		
Steven Butler	30,000		
Natasha A. Canavarro	15,000		
Herman Canavarro	30,000		
Christian B. Canavarro	12,000		
Mr. & Mrs. Peter R. Canavarro	15,000		
Cindy Cannupp	3,000		
Mr. & Mrs. Henry C. Carlson	6,000		
Charles Abbott Carter, III	150,000		
Edward E. Chandlee, Jr.	10,500		
Chesapeake Bank - Custodian for G. Ebeling, IRA	30,000		
Mr. & Mrs. Gordon S. Clausen	7,500		
Mr. & Mrs. Craig R. Cook	15,000		
Mr. & Mrs. Frederick Cooper	18,000		
Mr. & Mrs. Andrew Cooper	30,000		
Jason Cooper	15,000		
Donald W. Cooper	15,000		
Mr. & Mrs. Mark A. Costanzo	3,000		
Marina Leigh Costanzo	6,000		
Sally S. Costanzo	9,000		
Susan B. Coughlin	45,000		
Richard G. Crecraft	18,000		
Rick Crecraft	66,000		
David Crockett	3,000		
Clifton B. Currin	39,000		
John D'Avico	6,000		
W. Corkran Darlington	15,000		

Selling Shareholder -----	Common Stock Offered Hereby -----	Beneficial Ownership After Offering (1) -----	
		Number -----	Percent -----
F. Eugene Dixon, Jr.	30,000		
James M. Dorsey	15,000		
Mr. & Mrs. Gary G. Dougherty	6,000		
William P. Dunham	3,000		
Jean W. Eason	6,000		
Edmund H. Rogers, Jr., Trustee	60,000		
A. Mary Elder	15,000		
Barbara B. Elkin	18,000		
D. Diane Fiers	15,000		
Mr. & Mrs. Harry S. Finerfrock	24,000		
Ruth S. Flagg	15,000		
Susan C. Forhane	15,000		
Mr. Foss	6,000		
Mr. & Mrs. Richard Fradkin	30,000		
Robert Ross Frey	6,000		
Ronald V. Futerman	30,000		
Margaret R. Geddis	7,500		
Mr. & Mrs. John C. Gelhard	6,000		
Dr. George P. Glauner	15,000		
Harriet Glickstein	45,000		
Robert P. Gombar	4,500		
Mr. & Mrs. Wenpel C. Green	3,000		
Jacques C. Guequierre	15,000		
Joni Southard Guffey	3,000		
Ruth E. Hall	3,000		
Dianna Hall	3,000		
Thomas E. Hall	7,500		
Nancy S. Hallett	15,000		
Zelda S. Hansell	3,000		
Susan J. Hansen	9,000		
Gisela K. Harmelin	3,000		
William F. Harrity, Jr.	60,000		
Col. & Mrs. Russell D. Hartz	15,000		
Robert P. Hauptfuhrer Family Partnership	60,000		
Jack M. Heald	6,000		
Mr. & Mrs. Clifford J. Heath	30,000		
Emma K. Heed	225,750		
Austin B. Hepburn	30,000	1,259,400(2)	2.3%
Adele H. Hepburn	34,500	1,259,400(2)	2.3%
Patricia Austin Heppe	30,000		
A.D. Hodges	30,000		
Michael J. Hodges	30,000		
Julia B. Holloway	30,000		
David W. Hubbert	15,000		
Wilbur E. Hudson	30,000		
Christine F. Hughes	7,500		
Robert M. Ihrig	15,000		
Janney Montgomery Scott, Inc. FBO Judith N. Hemley, IRA	15,000		

Selling Shareholder -----	Common Stock Offered Hereby -----	Beneficial Ownership After Offering (1) -----	
		Number -----	Percent -----
Janney Montgomery Scott, Inc. Custodian FBO R.E. Wagner, IRA	15,000		
John C. Jubin	6,000		
Hugo Kappler, Jr.	30,000		
Mr. & Mrs. Harold F. Kauffman	15,000		
William G. Kay, III	3,000		
Caroline W. Kay	3,000		
Sanford S. Kay	3,000		
Mr. & Mrs. Ralph Kiper	30,000		
Harriette D. Klann	30,000		
Wayne H. Klapp	15,000		
Edward M.K. Klapp	45,000		
Carlyle Klise	9,000		
Deborah A. Krull	15,000		
Frederick K. Langguth	30,000		
Mr. & Mrs. Gary E. Lasher	30,000		
John N. Lee	30,000		
Mr. & Mrs. Michael S. Lehnkering	15,000		
Lucia E. Lugton	7,500		
Mr. & Mrs. Albert Malischewski	30,000		
Mr. & Mrs. William B. Malischewski	15,000		
Alvan Markle	15,000		
D. Edward McAllister	30,000		
Elaine F. McGlone	1,500		
Mr. & Mrs. Robert G. Meeker	60,000		
James F. Merriman	30,000		
Alfred J. Migliaccio, Custodian for Ashlee C. Migliaccio, UGMA of Pennsylvania	30,000		
Harley E. Miller	7,500		
Bernard Millis	30,000		
Mr. & Mrs. James F. Mitchell, III	30,000		
Mr. & Mrs. A. Harry Moffett	6,000		
Wanda S. Moffitt	30,000		
Donald Moll	15,000		
Mr. & Mrs. Robert H. Montgomery	9,000		
Gordon E. Montgomery	30,000		
Mr. & Mrs. Milton K. Morgan, Jr.	30,000		
Charles R. Morrow	24,000		
Mr. & Mrs. Ronald L. Noll	6,000		
Paul Nordin	30,000		
David Gregory Nute	3,000		
Kay B. Otterstrom	30,000		
Sara Otterstrom	15,000		
Lisa Otterstrom	15,000		
Victor L. Pack	6,000		
Robert G. Padrick	30,000		
Eric Pagh	15,000		
Janet P. Patel	30,000		

Selling Shareholder -----	Common Stock Offered Hereby -----	Beneficial Ownership After Offering (1) -----	
		Number -----	Percent -----
Walter C. Patterson	3,000		
Mary E. Petro	30,000		
George M. Pflaumer	60,000		
Robert L. Pollack	7,500		
Genevieve Pondo	15,000		
John W. Ponton, Jr.	30,000		
J. Steve Powell	12,000		
Charles E. Pusey, Jr.	6,000		
Mr. & Mrs. Ashok K. Rajpal	15,000		
Ernest L. Ransome, III	15,000		
Myradean A. Ransome	15,000		
McDonald & Co. FBO Rebecca A. Osleger, IRA	60,000		
Stephen D. Reim	30,000		
John B. Rettew, III	15,000		
Dr. & Mrs. John L. Reynolds	30,000		
Rosalind Robbins	30,000		
Mr. & Mrs. Eric J. Robbins	30,000		
Dr. Donald Robbins	30,000		
Ms. Noma Ann Roberts	15,000		
Mr. & Mrs. Gregg F. Robinson	30,000		
Dorothy S. Rodgers	30,000		
Thelma T. Romig	15,000		
Mr. & Mrs. John E. Roshelli	30,000		
Eric S. Rugart	30,000		
Robert T. Rugart	15,000		
Jacquiline Rugart	15,000		
Patricia E. Rugart	30,000		
Dr. Karl F. Rugart	15,000		
Cedric C. Scarlett	30,000		
Eloise R. Schaper	15,000		
Peter G. Schaper, Jr.	30,000		
Christine M. Schuler	30,000		
Candice Scialabbo	15,000		
Carissa Scialabbo	15,000		
Thomas V. Sedlacek	30,000		
Mr. & Mrs. Thomas A. Selders	15,000		
Mr. & Mrs. Frank R.S. Sellers	15,000		
Nicholas Sellers	9,000		
Nancy F. Sellers(3)	30,000		
William W. Sellers(3)	66,750	945,200	1.7%
Sellers Pension Plan(3)	60,000		
Sellers Process Equipment Company (3)	30,000		
Helen E. Seltzer	4,500		
Richard A. Shea	30,000		
Mr. & Mrs. Horace B. Spackman	30,000		
Carolyn Stallworth	3,000		
Clarence A. Sterling	30,000		

Selling Shareholder -----	Common Stock Offered Hereby -----	Beneficial Ownership After Offering (1) -----	
		Number -----	Percent -----
Edward B. Stokes	30,000		
Mr. & Mrs. Jack D. Stratton	30,000		
Mrs. Ruth M. Strock	15,000		
Sun Bank N.A. as Trustee for Ally, Meuss, Rogers and Lindsay PA, Profit Sharing 401(k) FBO Doyle Rogers	30,000		
Mr. & Mrs. John M. Taylor	6,000		
Judith Ann Taylor	4,500		
John M. Taylor	10,500		
Ruth L. Troster	15,000		
Roland G.E. Ullman, Jr.	3,000		
Varo Technical Services, Inc.- Pension Plan	30,000		
Ms. Sabine M. Weghtman	6,000		
Mr. & Mrs. Robert M. Whitbread	15,000		
Darry Withers	6,000		
Un-Jin Zimmerman	6,000		
Patricia P. Zimmerman	6,000		

Total.....	5,100,000		

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and derives from

either voting or investment power with respect to the securities, and includes any shares of Common Stock which a person has the right to acquire within 60-days of the date hereof.

(2) Adele and Austin Hepburn are husband and wife, and together would beneficially own an aggregate of 1,259,400 shares of Common Stock following the sale of all their Common Stock underlying their 1995 Warrants. Adele Hepburn is a Director of Public Relations of the Company.

(3) William W. Sellers is a Director of the Company. Mr. Sellers is a trustee of the Sellers Pension Plan and a Director of Sellers Process Equipment Company. Nancy F. Sellers is the spouse of William W. Sellers.

MARKET FOR COMMON STOCK

The Common Stock and Preferred Stock are currently traded on the OTC Electronic Bulletin Board under the symbols USTT and USTTP, respectively. Such trading began on March 8, 1995. As of the date hereof, there is no established trading market for the Common Stock or Preferred Stock. See "Risk Factors - No Assurance of Active Public Market" and "Risk Factors - Risks of Low-Priced Stocks."

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

Fiscal	High	Low
- - - - -	----	---
1996		
First Quarter (through September 30, 1995)	\$.55	\$.25
Second Quarter (through December 31, 1995)	\$1.00	\$.40
Third Quarter (through March 31, 1996)	\$1.40	\$.37
Fourth Quarter (through June 30, 1996)	\$1.68	\$.50
1997		
First Quarter (through September 30, 1996)	\$.63	\$.38
Second Quarter (through December 31, 1996)	\$.57	\$.29
Third Quarter (through March 31, 1997)	\$.43	\$.28
Fourth Quarter (through June 30, 1997)	\$.50	\$.19

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

On June 30, 1997, there were 3,971,000 shares of Common Stock issuable upon exercise of outstanding options and 157,300 shares of Common Stock issuable upon exercise of outstanding purchase rights. All of these shares of Common Stock, if issued on the date hereof, would be "restricted securities" as defined under Rule 144 under the Act. See "Description of Securities-Shares Eligible for Future Sale." Of the 3,971,000 options, 100,000 are exercisable at \$.50 per share, 1,236,000 are exercisable at \$.45 per share, 2,565,000 are exercisable at \$.25 per share, and 70,000 are exercisable at \$.05 per share. In September 1997, the Company issued options to acquire up to 50,000 shares of Common Stock to a consultant for \$.50 per share. In connection with all of such options other than the options exercisable at \$.05 per share, the Company has

agreed, at its cost and expense, to file a registration statement under the Act covering the resale of the Common Stock underlying the options during calendar year 1997. All of the aforesaid options have been issued by the Company to employees, Directors, officers, and consultants.

As of June 30, 1997, there were 1,414,000 shares of Common Stock issuable upon exercise of the outstanding 1995 Warrants, which when and if issued would be freely tradeable under the Act. See "Description of Securities - 1995 Common Stock Purchase Warrants."

As of June 30, 1997, there were 1,998,000 shares of Common Stock issuable upon exercise of the outstanding 1996 Warrants, which when and if issued would be freely tradeable under the Act. See "Description of Securities - 1996 Common Stock Purchase Warrants."

As of June 30, 1997, there were 374,000 shares of Common Stock issuable upon exercise of the outstanding 1996-B Warrants, which when and if issued would be freely tradeable under the Act. See "Description of Securities - 1996-B Common Stock Purchase Warrants."

As of July 3, 1997, there were 1,600,000 shares of Common Stock issuable upon exercise of the outstanding 1997 Warrants, which when and if issued would be freely tradeable under the Act. See "Description of Securities - 1997 Common Stock Purchase Warrants."

As of June 30, 1997, there were 2,000,000 shares of Common Stock issuable upon the exercise of outstanding warrants issued to affiliates and/or consultants to GEMA in connection with the sale of Convertible Securities and an undetermined amount of Common Stock issuable upon conversion of such Convertible Securities. See "Principal Shareholders - Convertible Securities Escrow Agreement" and "Description of Securities - Convertible Securities and Related Warrants."

The holders of the Common Stock are entitled to receive such dividends as the Board of Directors of the Company may from time to time declare out of funds legally available for payment of dividends. Through the date hereof, no cash dividends have been declared on the Company's securities. No dividend may be paid on the Common Stock until all accumulated and unpaid dividends on the Preferred Stock have been paid. As of June 30, 1997, such accumulated unpaid dividends amounted to \$2,837,086. See "Risk Factors - Cash Dividends Not Likely."

DESCRIPTION OF SECURITIES

General

The Company is authorized to issue up to 55,000,000 shares of Common Stock, no par value ("Common Stock"), and 1,200,000 shares of undesignated Preferred Stock all of which have been designated as Series A Convertible Preferred Stock, no par value ("Preferred Stock").

During March 1997, the Company's Shareholders approved an increase in the authorized number of shares of Common Stock to 55,000,000 shares; an increase in the authorized number of shares of Series A Preferred Stock to 1,200,000 shares; an increase from 10 to 12 the number of shares of Common Stock into which each share of Series A Preferred Stock may be converted during the period from March 24, 1997 to December 31, 1997 and a decrease in the conversion price at which the Series A Preferred Stock cumulative but unpaid dividends may be converted into shares of Common Stock from \$1.00 to \$.83 per share of Common Stock during the period from March 24, 1997 to December 31, 1997.

As of June 30, 1997, there were 29,969,934 shares of Common Stock issued and outstanding and 861,205 shares of Preferred Stock issued and outstanding which are convertible into 10,334,460 shares of Common Stock through December 31, 1997 and into 8,612,050 shares of Common Stock thereafter. Through June 30, 1997, a total of 45,345 shares of Preferred Stock have been converted into 485,550 shares of Common Stock and accrued and unpaid dividends thereon have been converted into 174,784 shares of Common Stock. As of June 30, 1997, there were 1,012 record owners of the Common Stock and 933 record owners of the Preferred Stock. As of June 30, 1997, there were 1,414,000 1995 Warrants, 1,998,000 1996 Warrants, 374,000 1996-B Warrants, 1,600,000 1997 Warrants issued and outstanding. In addition, as of June 30 1997, there were 2,000,000 outstanding warrants that had been issued to affiliates and/or consultants of GEM Advisors, Inc.

As of June 30, 1997, the Company has issued to its directors, executive officers, consultants, and employees options to acquire up to 100,000 shares of Common Stock at \$.50 per share, options to acquire up to 1,236,000 shares of Common Stock at \$.45 per share, options to acquire up to 2,565,000 shares of Common Stock at \$.25 per share, and options to acquire up to 70,000 shares of Common Stock at \$.05 per share. See "Management--Executive Stock Options", "Management - Director Compensation and Stock Options" and "Management - - Officer Terminations." The Company has also issued purchase rights to acquire up to 157,300 shares of Common Stock at \$1.00 per share. All options to purchase Common Stock were granted at prices at or above the market value on the date of the grant.

In April 1997, the Company commenced a private placement offering of 110 units at a unit price of \$10,000 pursuant to Rule 506 under Regulation D of the Act. Each unit consisted of 2,000 shares of Preferred Stock and 40,000 1997 Warrants. On May 15, 1997, the Company reduced this offering to a maximum of 40 units at a unit price of \$10,000. The offering was concluded on July 3, 1997. The Company sold 40 units of this offering, generating gross proceeds of \$400,000.

In April 1997, Kelly Capital Corporation exercised options to purchase 150,000 shares of Common Stock at \$.05 per share. This transaction generated proceeds to the Company of \$7,500. All of such shares were issued by the Company in reliance on Section 4(2) of the Act.

During June 1997, the Company issued an aggregate of \$500,000 of Convertible Securities pursuant to an agreement with Gem Advisors Inc. (GEMA) which provided GEMA with the exclusive right to place the Convertible Securities with qualified purchasers.

The Convertible Securities have a five year term and earn a cumulative dividend at the rate of 6% per year, payable in Common Stock or cash at the option of the Company at the time of conversion. The Convertible Securities were issued by the Company pursuant to Regulation S promulgated under the Act. Since the Convertible Securities can only be converted into shares of Common Stock, the value and number of shares of Common Stock of the Company has been adjusted to reflect the Convertible Securities as shares of Common Stock in the Company's June 30, 1997 financial statements. Upon completion of the sale of the Convertible Securities, GEMA received 8% of the gross proceeds (i.e. \$40,000) as a management/documentation fee. In addition, affiliates and/or consultants to GEMA received non-redeemable warrants to purchase up to 2,000,000 shares of the Company's Common Stock at a price of \$.20 per share at any time prior to June 22, 2002. These warrants have been issued by the Company pursuant to Regulation S.

The Company has entered into an escrow agreement pursuant to which the Company issued 2,500,000 shares of restricted Common Stock registered in the name of Lurio & Associates, as Escrow Agent. Such shares were issued in order to ensure that they would be available if and when the holders of the Convertible Securities convert their Convertible Securities. During August and September 1997, the holders of \$430,000 of the Convertible Securities converted their securities into 1,568,517 shares of Common Stock, and 350,000 shares of Common Stock remain in escrow.

In June 1997, the Company extended the consulting agreement with Jerome M. Wenger which had expired on March 31, 1997 for an additional four months, and authorized the issuance of 160,000 shares of Common Stock as compensation for the services to be rendered to the Company pursuant to this agreement. The Company has registered these shares under the Act and such shares are freely tradeable thereunder. In connection with the issuance of such shares, the Company recorded consulting expense of \$41,439 which was recorded during the quarter ending June 30, 1997.

In June 1997, the Company authorized the issuance of 17,000 shares of Common Stock to a consultant, Robert Flaherty, as compensation for services. Such services included the preparation of public relations reports for the Company. The Company has registered these shares under the Act and such shares are freely tradeable thereunder. In connection with the issuance of such shares, the Company recorded consulting expense of approximately \$6,352 in June 1997.

In June 1997, the Company authorized the issuance of 125,000 shares of Common Stock to a consultant, Rick Joshi, as compensation for services. Such services included the preparation of research report for the Company in exchange for 35,000 shares of such Common Stock. The Company has agreed to register these shares under the Act and such shares will be freely tradeable thereunder. In connection with the issuance of such shares, the Company recorded consulting expense of approximately \$46,709 in June 1997.

In September 1997, the Company issued 40,000 shares of Common Stock to Mike Cardascia, a consultant to the Company, as compensation for services to be rendered to the Company. The Company has agreed to register these shares under the Act and such shares will be freely tradeable thereunder.

In September 1997, the Company granted to the RAM Group, a consultant to the Company, fully vested options to acquire up to 50,000 shares of Common Stock for \$.50 at anytime during a five year period. In connection with such grant, the Board of Directors concluded that the exercise price of such options is equal to or greater than the fair market value of the Common Stock on the date of the grant of the options.

Pursuant to the request of the Pennsylvania Securities Commission, Mr. Jensen has agreed that unless certain conditions are satisfied, either 4,365,000 or, alternatively, 1,030,000 shares of the Common Stock beneficially owned by him would be cancelled by the Company. In the event that any of Mr. Jensen's shares of Common Stock are cancelled, such cancelled shares would no longer be issued and outstanding shares of Common Stock. Unless and until any such shares would be cancelled, and subject to the restrictions on sale or transfer pursuant to the escrow arrangement, Mr. Jensen has retained all rights pertaining to such shares, including voting rights. See "Risk Factors - Charge to Income in the Event of Release of Escrow Shares" and "Principal Shareholders-Escrow and Cancellation Arrangements."

Authorized Shares Exceeded

As of June 30, 1997, on a fully converted basis, the Company would have 55,236,870 shares of Common Stock issued and outstanding. This amount exceeds the authorized number of shares of Common Stock of 55,000,000 by 236,870 shares. As of September 30, 1997, on a fully converted basis, the Company would have 55,563,584 shares of Common Stock issued and outstanding. The Company's Articles of Incorporation, the issued and outstanding option certificates and the various warrant agreements, contain various covenants which require the Company to reserve an adequate number of shares of Common Stock for various contingencies. Although the Company currently has reserved an adequate number of shares of Common Stock on a fully converted basis, there can be no assurance that the Company will be able to continue to satisfy these covenants.

All of the outstanding warrant agreements contain a covenant which states that there have been reserved, and the Company shall at all times keep reserved out of the authorized and unissued shares of Common Stock, a number of shares of Common Stock sufficient to provide for the exercise of the rights of purchase represented by the warrants.

All of the option certificates contain a covenant which states that "the Company shall at all times keep reserved out of the authorized and unissued shares of Common Stock a number of shares of Common Stock sufficient to provide for the exercise of the right of purchase represented by the options." Of the issued and outstanding options to purchase 3,971,000 shares of Common Stock, as of June 30, 1997, 775,000 of these options have not vested and thus are not eligible for exercise. As of December 31, 1997, 462,500 of these options will remain unvested and not be eligible for exercise.

The Company's Articles of Incorporation state that the Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock a sufficient number of shares to effect the conversion of the shares of the Preferred Stock.

On and after January 1, 1998, each share of Preferred Stock would be convertible into 10 shares of Common Stock instead of 12 shares of Common Stock, as currently provided. On and after January 1, 1998, the accrued and unpaid dividends on the Preferred Stock would be convertible into Common Stock at the rate of \$1.00 per share of Common Stock as opposed to the present conversion rate of \$.83 per share of Common Stock. Based on the 861,205 shares of Preferred Stock outstanding on the date hereof and the accrued dividends thereon, the change in these conversion rates on January 1, 1998 would result in a reduction of 2,303,500 shares of the fully diluted Common Stock. However, to the extent that the holders of Preferred Stock convert their shares before such date, this anticipated reduction in the outstanding shares of Common Stock would be reduced or eliminated. Furthermore, based on the 861,205 shares of Preferred Stock outstanding on August 1, 1997, an additional \$645,904 dividend will accrued on August 1, 1997 entitling the holders of Preferred Stock to acquire 778,197 additional shares of Common Stock through December 31, 1997, and 645,904 shares thereafter. Although the Company has not made any covenants to the holders of the Preferred Stock to reserve shares of Common Stock for issuance upon conversion of the accrued dividends on the Preferred Stock, these additional dividends are automatically convertible into Common Stock at the time of the conversion of the related shares of Preferred Stock. Thus, on June 30, 1997, although the accrued dividends on the Preferred Stock could be converted into 3,418,176 shares of Common Stock, there were only 3,338,816 shares of Common Stock that were authorized and unreserved. There can be no assurance that a sufficient number of shareholders will not convert their Preferred Stock and the accrued dividends thereon into shares of Common Stock, thus causing the Company to violate the above covenants.

The Company could remedy any violation of the above covenants by increasing the number of authorized shares of Common Stock. Any such increase must be approved by the Board of Directors of the Company and then approved by a majority vote of the shareholders of the Company. There can be no assurance that a majority of the shareholders would approve such a proposal. At this time, the Company has no intention of presenting such a proposal to the shareholders.

Common Stock

The holder of each share of Common Stock is entitled to one vote on all matters submitted to a vote of the shareholders of the Company, including the election of directors. There is no cumulative voting for directors.

The holders of Common Stock are entitled to receive such dividends as the Board of Directors may from time to time declare out of funds legally available for payment of dividends. No dividend may be paid on the Common Stock until all accumulated and unpaid dividends on the Preferred Stock have been paid.

Upon any liquidation, dissolution or winding up of the Company, holders of shares of Common Stock are entitled to receive pro rata all of the assets of the Company available for distribution, subject to the liquidation preference of the Preferred Stock of \$10.00 per share and any unpaid and accumulated dividends on the Preferred Stock. The holders of the Common Stock do not have any preemptive rights to subscribe for or purchase shares, obligations, 1995 Warrants, 1996 Warrants, 1996-B Warrants, 1997 Warrants or other securities of the Company.

Series A Convertible Preferred Stock

The holders of shares of Preferred Stock have the number of votes per share equal to the number of shares of Common Stock into which each such share is convertible (i.e., 1 share of Preferred Stock equals 10 votes, provided that through December 31, 1997, each share of Preferred Stock equals 12 votes). The shares of Preferred Stock are entitled to vote on all matters submitted to the vote of the shareholders of the Company, including the election of directors.

The holders of Preferred Stock are entitled to an annual cumulative cash dividend of \$1.50 per annum, payable when, as and if declared by the Board of Directors. The record dates for payment of dividends on the Preferred Stock are February 1 and August 1 of each year. Any and all accumulated and unpaid cash dividends on the Preferred Stock must be declared and paid prior to the declaration and payment of any dividends on the Common Stock. Any unpaid and accumulated dividends will not bear interest. As of June 30, 1997 the accumulated and unpaid dividends on the Preferred Stock were \$2,837,086.

Each share of Preferred Stock is convertible at any time into 10 shares of fully issued and non-assessable Common Stock, provided that the conversion rate for each share of Preferred Stock is 12 shares of Common Stock through December 31, 1997. Accrued and unpaid dividends earned on shares of Preferred Stock being converted into Common Stock are also convertible into Common Stock at the rate \$1.00 per share of Common Stock at the time of conversion and whether or not such dividends have then been declared by the Company, provided that the conversion rate is reduced to \$.83 per share of Common Stock through December 31, 1997. As of June 30, 1997, a total of 38,255 shares of Preferred Stock have been converted into Common Stock and accrued and unpaid dividends thereon have been converted into 174,784 shares of Common Stock. The conversion rate of the Preferred Stock (and any accrued and unpaid dividends thereon) will be equitably adjusted for stock splits, stock combinations, recapitalizations, and in connection with certain other issuances of Common Stock by the Company. Upon any liquidation, dissolution, or winding-up of the Company, the holders of Preferred Stock are entitled to receive a distribution in preference to the Common Stock in the amount of \$10.00 per share plus any accumulated and unpaid dividends.

The Company has the right, at any time on or after January 1, 1998, to redeem all or any part of the issued and outstanding Preferred Stock for the sum of \$11.00 per share plus any and all unpaid and accumulated dividends thereon. Upon notice by the Company of such call, the holders of the Preferred Stock so called will have the opportunity to convert their shares of Preferred Stock and any unpaid and accumulated dividends thereon (whether or not such dividends have been declared by the Company as of such date) into shares of Common Stock.

The Company paid a special stock dividend consisting of 3 shares of Common Stock for each share of Preferred Stock issued and outstanding on August 1, 1995. The stock dividend consisted of an aggregate of 1,908,600 shares of Common Stock.

Convertible Securities and Related Warrants

During June 1997, the Company issued an aggregate of \$500,000 of Convertible Securities pursuant to an agreement with Gem Advisors Inc. ("GEMA") which provided GEMA with the exclusive right to place the Convertible Securities with qualified purchasers.

The Convertible Securities mature five years from issuance and earn a cumulative dividend at the rate of 6% per year, such dividend payable in Common Stock or cash at the option of the Company at the time of conversion. At any time after 45 days from issuance, the Convertible Securities are convertible into shares of Common Stock at the lesser of \$.398, the average closing bid price of the Common Stock for the five trading days immediately preceding the date of issuance, or sixty-five percent (65%) of the average closing bid price of the Common Stock for the five trading days immediately preceding the day prior to the date of conversion. At any time one year after issuance, the Company has the right to require the redemption of the Convertible Securities at the lesser of \$.398, the average closing bid price of the Common Stock on the date of issuance, or sixty-five percent (65%) of the average closing bid price of the Common Stock for the five trading days immediately preceding the day prior to the date of conversion. If the Convertible Securities have not been redeemed or converted prior to their maturity date, the entire principal amount of the Convertible Securities shall be automatically converted into shares of Common Stock on and as of the such date. The number of shares into which the Convertible Securities shall be converted shall be calculated in accordance with the conversion formula described above. All dividends accrued on the Convertible Securities through the maturity date shall be satisfied, at the Company's option, either through the issuance of shares of Common Stock or the payment of cash. The Convertible Securities were issued by the Company pursuant to Regulation S promulgated under the Act.

Upon completion of the sale of the Convertible Securities, GEMA received 8% of the gross proceeds (i.e. \$40,000) as a management/documentation fee. In addition, affiliates and/or consultants to GEMA received non-redeemable warrants to purchase up to 2,000,000 shares of the Company's Common Stock at a price of \$.20 per share at any time prior to June 23, 2002. These warrants have been issued by the Company pursuant to Regulation S.

In connection with the transaction, the Company entered into an escrow agreement, pursuant to which the Company issued 2,500,000 shares of restricted Common Stock registered in the name of Lurio & Associates, as Escrow Agent. Such shares are being issued in order to ensure that they would be available when the holders of the Convertible Securities convert their Convertible Securities. In August and September 1997, the holders of \$430,000 of the Convertible Securities converted their securities into 1,568,517 shares of Common Stock, leaving 350,000 shares of Common Stock subject to the escrow agreement as of the date hereof.

1997 Common Stock Purchase Warrants

Each 1997 Warrant entitles its holder to immediately purchase one share of Common Stock. The exercise price is \$.20 per share through September 30, 1997 and \$.40 per share thereafter, subject to reduction at any time by the Company. The 1997 Warrants are exercisable at any time prior to July 3, 2002, or such later date as may be determined by the Company.

The 1997 Warrants have been issued pursuant to a warrant agreement (the "1997 Warrant Agreement") by and between the Company and American Stock Transfer & Trust Company, the warrant agent.

The Company has, at its expense, registered for resale the Common Stock underlying the 1997 Warrants under the Act, and has exempted from registration such Common Stock for resale by non-affiliates of the Company in those states in which the holders of the 1997 Warrants are located.

The exercise price of the 1997 Warrants and the number of shares of Common Stock issuable upon exercise of the 1997 Warrants are subject to adjustment in certain circumstances, including a stock split of, stock dividend on, or a subdivision, combination or recapitalization of the Common Stock. Upon the merger, consolidation, sale of substantially all of the assets of the Company, or other similar transaction, the Warrant holders shall, at the option of the Company, be required to exercise the Warrants immediately prior to the closing of the transaction, or such Warrants shall automatically expire. Upon such exercise, the Warrant holders shall participate on the same basis as the holders of Common Stock in connection with the transaction.

The 1997 Warrants do not confer upon the holder any voting or any other rights of a shareholder of the Company. Upon notice to the 1997 Warrant holders, the Company has the right, at any time and from time to time, to reduce the exercise price or to extend the expiration date of the 1997 Warrants.

1996-B Common Stock Purchase Warrants

Each 1996-B Warrant entitles its holder to immediately purchase one share of Common Stock. The exercise price is \$.20 per share through September 30, 1997 and \$.30 per share thereafter, subject to reduction at any time by the Company. The 1996-B Warrants are exercisable at any time prior to February 28, 2002 or such later date as may be determined by the Company. As of June 30, 1997, none of the 1996-B Warrants have been exercised and 374,000 remain outstanding.

The 1996-B Warrants have been issued pursuant to a warrant agreement dated as of February 28, 1997 (the "1996-B Warrant Agreement") by and between the Company and American Stock Transfer & Trust Company, the warrant agent.

The Company has, at its expense, registered for resale the Common Stock underlying the 1996-B Warrants under the Act, and has exempted from registration such Common Stock for resale by non-affiliates of the Company in those states in which the holders of the 1996-B Warrants are located.

The exercise price of the 1996-B Warrants and the number of shares of Common Stock issuable upon exercise of the 1996-B Warrants are subject to adjustment in certain circumstances, including a stock split of, stock dividend on, or a subdivision, combination or recapitalization of the Common Stock. Upon the merger, consolidation, sale of substantially all of the assets of the Company, or other similar transaction, the Warrant holders shall, at the option of the Company, be required to exercise the Warrants immediately prior to the closing of the transaction, or such Warrants shall automatically expire. Upon such exercise, the Warrant holders shall participate on the same basis as the holders of Common Stock in connection with the transaction.

The 1996-B Warrants do not confer upon the holder any voting or any other rights of a shareholder of the Company. Upon notice to the 1996-B Warrant holders, the Company has the right, at any time and from time to time, to reduce the exercise price or to extend the expiration date of the 1996-B Warrants.

1996 Common Stock Purchase Warrants

Each 1996 Warrant entitles its holder to purchase one share of Common Stock at an exercise price of \$.25 through October 31, 1997, and \$.50 thereafter, or such lower price as may be determined by the Company from time to time. The 1996 Warrants are exercisable at any time through May 31, 2001, or such later date as may be determined by the Company ("1996 Warrant Termination Date"). On September 11, 1997, the Board of Directors of the Company reduced the exercise price of the 1996 Warrants to \$.25 per share through October 31, 1997. The exercise price of the 1996 Warrants had been reduced by the Company to \$.20 during the period of time from November 1, 1996 through February 28, 1997. As of June 30, 1997, an aggregate of 3,202,000 1996 Warrants have been exercised, all at \$.20, and 1,998,000 remain unexercised.

The 1996 Warrants have been issued pursuant to a 1996 Warrant Agreement dated as of May 1, 1996, by and between the Company and American Stock Transfer & Trust Company, the warrant agent.

The Company has, at its expense, registered for resale the Common Stock underlying the 1996 Warrants under the Act, and has exempted from registration such Common Stock for resale by non-affiliates of the Company in those states in which the holders of the 1996 Warrants are located.

The exercise price of the 1996 Warrants and the number of shares of Common Stock issuable upon exercise of the 1996 Warrants are subject to adjustment in certain circumstances, including a stock split of, stock dividend on, or a subdivision, combination or recapitalization of the Common Stock. Upon the merger, consolidation, sale of substantially all the assets of the Company, or other similar transaction, the 1996 Warrant holders shall, at the option of the Company, be required to exercise the 1996 Warrants immediately prior to the closing of the transaction, or such 1996 Warrants shall automatically expire. Upon such exercise, the 1996 Warrant holders shall participate on the same basis as the holders of Common Stock in connection with the transaction.

The 1996 Warrants do not confer upon the holder any voting or any other rights of a shareholder of the Company. Upon notice to the 1996 Warrant holders, the Company has the right, at any time and from time to time, to reduce the exercise price or to extend the 1996 Warrant Termination Date.

1995 Common Stock Purchase Warrants

Each 1995 Warrant entitles its holder to purchase one share of Common Stock at an exercise price of \$.25 through October 31, 1997, and \$.50 thereafter, or such lower exercise price as may be determined by the Company from time to time. On September 11, 1997, the Board of Directors of the Company reduced the exercise price of the 1995 Warrants to \$.25 per share through October 31, 1997. The exercise price of the 1995 Warrants had been reduced by the Company to \$.30 during the period of time from February 12, 1996 through June 30, 1996. As of June 30, 1997, a total of 3,686,000 1995 Warrants have been exercised, all at \$.30, generating gross proceeds of \$1,105,800. There are 1,414,000 unexercised 1995 Warrants as of June 30, 1997. The 1995 Warrants are exercisable at any time through January 31, 2001, or such later date as may be determined by the Company ("1995 Warrant Termination Date").

The 1995 Warrants have been issued pursuant to a 1995 Warrant Agreement dated as of June 21, 1995, by and between the Company and American Stock Transfer & Trust Company, the warrant agent.

The Company has registered for resale the Common Stock underlying the 1995 Warrants under the Act, and has registered or exempted from registration such Common Stock for resale by non-affiliates of the Company in those states in which the holders of the 1995 Warrants are located.

The exercise price of the 1995 Warrants and the number of shares of Common Stock issuable upon exercise of the 1995 Warrants are subject to adjustment in certain circumstances, including a stock split of, stock dividend on, or a subdivision, combination or recapitalization of the Common Stock. Upon the merger, consolidation, sale of substantially all the assets of the Company, or other similar transaction, the 1995 Warrant holders shall, at the option of the Company, be required to exercise the 1995 Warrants immediately prior to the closing of the transaction, or such Warrants shall automatically expire. Upon such exercise, the 1995 Warrant holders shall participate on the same basis as the holders of Common Stock in connection with the transaction.

The 1995 Warrants do not confer upon the holder any voting or any other rights of a shareholder of the Company. Upon notice to the 1995 Warrant holders, the Company has the right, at any time and from time to time, to reduce the exercise price or to extend the 1995 Warrant Termination Date.

Shares Eligible for Future Sale

Of the 29,969,934 shares of Common Stock issued and outstanding on June 30, 1997, 14,500,334 are freely transferable without restriction or further registration under the Act (other than shares held by "affiliates" of the Company), and the remaining 15,469,600 are "restricted securities". As of June 30, 1997, there were 861,205 shares of Preferred Stock issued and outstanding, 268,905 of which are freely transferable without further registration or restriction under the Act (other than shares held by "affiliates" of the Company), and the remaining 592,300 are "restricted securities". The 861,205 shares of Preferred Stock issued and outstanding on June 30, 1997 are convertible into 10,334,460 shares of Common Stock. Of such shares of Common Stock, 3,226,860 would be fully transferable without registration or regulation under the Act and 7,107,600 would be "restricted securities" within the meaning of Rule 144.

As set forth in the prior paragraph, there are 15,469,600 shares of Common Stock and 592,300 shares of Preferred Stock which are "restricted securities" and cannot be resold without registration, except in reliance upon Rule 144 or another applicable exemption from registration. All of such Common Stock (other than 150,000 shares thereby) is eligible for sale under Rule 144. Of such Preferred Stock, 502,950 are currently subject to sale pursuant to Rule 144, and 89,350 would become eligible for sale under Rule 144 during calendar year 1998.

As of June 30, 1997, there are outstanding options to acquire 3,971,000 shares of Common Stock, 70,000 of which are exercisable at \$.05 per share, 2,565,000 of which are exercisable at \$.25 per share, 1,236,000 of which are exercisable at \$.45 per share, and 100,000 of which are exercisable at \$.50 per share. There are also outstanding purchase rights to acquire 157,300 shares of Common Stock at \$1.00 per share. In September 1997, the Company issued to a consultant options to acquire up to 50,000 shares of Common Stock at \$.50 per share. All of such Common Stock, if issued on the date hereof, would be "restricted securities" as defined in Rule 144 promulgated under the Act. In connection with all of such options other than options exercisable at \$.05 per share, the Company plans, at its cost and expense, to file a registration statement under the Act and applicable state securities laws covering all of the Common Stock underlying the options during calendar year 1997. As of June 30, 1997, there were also 1,414,000 shares of Common Stock issuable by the Company to the holders of the outstanding unexercised 1995 Warrants, 1,998,000 shares of Common Stock issuable by the Company to the holders of the outstanding unexercised 1996 Warrants, 374,000 shares of Common Stock issuable by the Company to the holders of the outstanding unexercised 1996-B Warrants, and 1,600,000 shares of Common Stock issuable by the Company to the holders of the outstanding unexercised 1997 Warrants. Such Common Stock, if issued, will be freely tradeable under the Act.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are required to be aggregated), including any affiliate of the Company, who beneficially owns "restricted securities" for a period of at least one year is entitled to sell within any three-month period, shares equal in number to the greater of (i) 1% of the then outstanding shares of the same class of shares, or (ii) the average weekly trading volume of the same class of shares during the four calendar weeks preceding the filing of the required notice of sale with the Securities and Exchange Commission. The seller must also comply with the notice and manner of sale requirements of Rule 144, and there must be current public information available about the Company. In addition, any person (or persons whose shares must be aggregated) who is not, at the time of sale, nor during the preceding three months, an affiliate of the Company, and who has beneficially owned restricted shares for at least two years, can sell such shares under Rule 144 without regard to the notice, manner of sale, public information or the volume limitations described above.

Limitation of Liability; Indemnification

As permitted by the Pennsylvania Business Corporation Law of 1988 ("BCL"), the Company's By-laws provide that Directors of the Company will not be personally liable, as such, for monetary damages for any action taken unless the Director has breached or failed to perform the duties of a Director under the BCL and the breach or failure to perform constitutes self-dealing, willful

misconduct or recklessness. This limitation of personal liability does not apply to any responsibility or liability pursuant to any criminal statute, or any liability for the payment of taxes pursuant to Federal, State or local law. The By-laws also include provisions for indemnification of the Company's Directors and officers to the fullest extent permitted by the BCL. Insofar as indemnification for liabilities arising under the Act may be permitted to Directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

Transfer Agent and Registrar

The Transfer Agent and Registrar for the Common Stock, Preferred Stock, 1995 Warrants, 1996 Warrants, 1996-B Warrants and 1997 Warrants is American Stock Transfer & Trust Company, 40 Wall Street, New York, New York 10005.

PLAN OF DISTRIBUTION

The Common Stock is being registered to permit public secondary trading of the Common Stock by the Selling Shareholders from time to time after the date of this Prospectus. The Company has agreed to bear all the expenses (other than selling commissions) in connection with the registration and sale of the Common Stock covered by this Prospectus.

The Common Stock offered by the Selling Shareholders pursuant to this Prospectus may be sold from time to time by the Selling Shareholders. The sale of the Common Stock offered hereby by the Selling Shareholders may be effected in one or more transactions that may take place on the over-the-counter market, including ordinary brokers' transactions, privately negotiated transactions or through sales to one or more dealers for resale of such securities as principals. Usual and customary or specifically negotiated brokerage fees or commissions may be paid by the Selling Shareholders.

The Company will not receive any of the proceeds from the sale of the Common Stock by the Selling Shareholders. The Selling Shareholders will receive all of the net proceeds from the sale of the Common Stock and will pay all selling commissions, if any, applicable to the sale of the Common Stock. The Company is responsible for all other expenses incident to the offer and sale of the Common Stock.

In order to comply with the securities laws of certain states, if applicable, the Common Stock will be sold in such jurisdictions only through registered or licensed brokers or dealers. In

addition, in certain states, the Common Stock may not be sold unless it has been registered or qualified for resale by the Selling Shareholder in the applicable state or an exemption from the registration or qualification requirement is available and complied with.

LEGAL MATTERS

The validity of the Common Stock has been passed upon for the Company by Lurio & Associates, Philadelphia, Pennsylvania. Lurio & Associates was as of June 30, 1996, the beneficial owner of an aggregate of 2,500,000 shares of Common Stock which were issued to the firm as Escrow Agent in connection with the issuance of an aggregate of \$500,000 of Convertible Securities in June 1997. In August and September 1997, the holders of \$430,000 of the Convertible Securities converted their securities into Common Stock, leaving 350,000 shares subject to the escrow arrangement. The shares of Common Stock are being issued and held in escrow in order to ensure that they are available to the holders of the Convertible Securities upon conversion of the Convertible Securities. See "Description of Securities - Convertible Securities and Related Warrants."

EXPERTS

The financial statements of USA Technologies, Inc. at June 30, 1997 and 1996, and for each of the two years in the period ended June 30, 1997, and for the period January 16, 1992 (inception) through June 30, 1997, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon (which contains an explanatory paragraph describing conditions that raise substantial doubt about the Company's ability to continue as a going concern as described in Note 2 to the financial statements) appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

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USA TECHNOLOGIES, INC.
(A Development Stage Corporation)

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Report of Independent Auditors

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

We have audited the accompanying balance sheets of USA Technologies, Inc. (A Development Stage Corporation) as of June 30, 1997 and 1996, and the related statements of operations, shareholders' equity, and cash flows for each of the two years in the period ended June 30, 1997 and the period January 16, 1992 (inception) through June 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USA Technologies, Inc. at June 30, 1997 and 1996, and the results of its operations and its cash flows for each of the two years in the period ended June 30, 1997 and for the period January 16, 1992 (inception) through June 30, 1997, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming USA Technologies, Inc. will continue as a going concern. As discussed in Note 2 to the financial statements, the Company's recurring losses from operations from its inception and its accumulated deficit through June 30, 1997, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
August 14, 1997

USA Technologies, Inc.
(A Development Stage Corporation)

Balance Sheets

	1997	June 30	1996
	-----		-----
Assets			
Current assets:			
Cash and cash equivalents	\$ 630,266		\$ 1,773,356
Accounts receivable less allowance for uncollectible accounts of \$19,345	127,318		--
Inventory	378,318		426,391
Stock subscriptions receivable	60,000		106,350
Prepaid expenses and deposits	15,670		3,614
	-----		-----
Total current assets	1,211,572		2,309,711
Property and equipment, net	178,457		235,214
Other assets	20,250		42,446
	-----		-----
Total assets	\$ 1,410,279		\$ 2,587,371
	=====		=====
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	\$ 474,646		\$ 301,849
Accrued expenses	46,742		41,559
Current obligations under capital leases	18,270		9,048
	-----		-----
Total current liabilities	539,658		352,456
Obligations under capital leases, less current portion	24,480		21,209
Accrued rent	--		13,516
	-----		-----
Total liabilities	564,138		387,181
Shareholders' equity:			
Preferred Stock, no par value:			
Authorized shares - 1,200,000			
Series A Convertible issued and outstanding shares - 861,205 and 796,025 at June 30, 1997 and 1996, respectively (liquidation preference of \$ 11,449,136 at June 30, 1997)	7,024,811		6,776,132
Common Stock, no par value:			
Authorized shares - 55,000,000			
Issued and outstanding shares - 29,969,934 and 23,023,976 at June 30, 1997 and 1996, respectively	4,355,334		2,720,201
Deficit accumulated during the development stage	(10,534,004)		(7,296,143)
	-----		-----
Total shareholders' equity	846,141		2,200,190
	-----		-----
Total liabilities and shareholders' equity	\$ 1,410,279		\$ 2,587,371
	=====		=====

See accompanying notes.

USA Technologies, Inc.
(A Development Stage Corporation)

Statements of Operations

	Year ended June 30		January 16, 1992 (date of inception) through June 30, 1997
	1997	1996	
<hr style="border-top: 1px dashed black;"/>			
Revenues:			
Equipment sales	\$ 490,614	\$ --	\$ 490,614
License fees	117,158	52,979	180,816
	-----	-----	-----
Total revenues	607,772	52,979	671,430
Operating expenses:			
General and administrative	2,040,163	1,511,281	5,258,688
Compensation	1,080,458	903,398	3,546,234
Cost of sales	525,090	--	525,090
Depreciation and amortization	97,250	72,016	195,644
Provision for losses on equipment	--	44,100	400,715
Costs incurred in connection with abandoned private placement	--	--	50,000
	-----	-----	-----
Total operating expenses	3,742,961	2,530,795	9,976,371
	-----	-----	-----
	(3,135,189)	(2,477,816)	(9,304,941)
Other income (expense):			
Interest income	26,676	31,868	80,080
Interest expense	(12,199)	(5,749)	(138,810)
	-----	-----	-----
Total other income (expense)	14,477	26,119	(58,730)
	-----	-----	-----
Net loss	(3,120,712)	(2,451,697)	\$ (9,363,671)
	-----	-----	=====
Cumulative preferred dividends	(1,243,295)	(954,300)	
	-----	-----	
Loss applicable to common shares	\$ (4,364,007)	\$ (3,405,997)	
	=====	=====	
Loss per common share	\$ (.21)	\$ (.23)	
	=====	=====	
Weighted average number of common shares outstanding	20,984,381	14,908,904	
	=====	=====	

See accompanying notes

USA Technologies, Inc.
(A Development Stage Corporation)

Statements of Shareholders' Equity

	Series A Convertible Preferred Stock	Common Stock	Deficit Accumulated During the Development Stage	Total
Balance, January 16, 1992, inception	\$ --	\$ --	\$ --	\$ --
April 1992-10,500,000 shares of Common Stock at \$.001 per share	--	10,500	--	10,500
May 1992-10,000 shares of Convertible Preferred Stock at \$9.98 per share	99,800	--	--	99,800
June 1992-100,000 shares of Common Stock at \$.001 per share	--	100	--	100
Net loss	--	--	(1,848)	(1,848)
Balance, June 30, 1992	99,800	10,600	(1,848)	108,552
September 1992-15,000 shares of Convertible Preferred Stock at \$9.97 per share	149,550	--	--	149,550
September 1992-450,000 shares of Common Stock at \$.001 per share	--	450	--	450
April 1993-400,000 shares of Common Stock at \$.001 per share	--	400	--	400
June 1993-695,000 shares of Common Stock at \$.001 per share	--	695	--	695
June 1993-142.2 units (142,200 shares, net of offering costs, of Convertible Preferred Stock at \$9.97 per share and 4,266,000 shares of Common Stock at \$.001 per share)	1,266,439	3,815	--	1,270,254
Net loss	--	--	(899,547)	(899,547)
Balance, June 30, 1993	1,515,789	15,960	(901,395)	630,354
September 1993-110,000 shares of Common Stock at \$.001 per share	--	110	--	110
February 1994-79,522 units (79,522 shares, net of offering costs, of Convertible Preferred Stock at \$9.99 per share and 556,654 shares of Common Stock at \$.001 per share)	624,824	438	--	625,262
March 1994-34,960 units (34,960 shares, net of offering costs, of Convertible Preferred Stock at \$9.99 per share and 244,720 shares of Common Stock at \$.001 per share)	288,591	202	--	288,793
June 1994-15,940 units (15,940 shares, net of offering costs, of Convertible Stock at \$9.99 per share and 111,580 shares of Common Stock at \$.001 per share)	75,196	52	--	75,248
Net loss	--	--	(1,244,117)	(1,244,117)
Balance, June 30, 1994	2,504,400	16,762	(2,145,512)	375,650

- continued -

USA Technologies, Inc.
(A Development Stage Corporation)

Statements of Shareholders' Equity (continued)

	Series A Convertible Preferred Stock	Common Stock	Deficit Accumulated During the Development Stage	Total
July 1994-5,092 units (5,092 shares, net of offering costs, of Convertible Preferred Stock at \$9.99 per share and 35,644 of Common Stock at \$.001 per share)	\$ 37,248	\$ 26	\$ --	\$ 37,274
August 1994-9,132 units (9,132 shares, net of offering costs, of Convertible Preferred Stock at \$9.99 per share and 63,924 of Common Stock at \$.001 per share)	66,801	47	--	66,848
September 1994-4,935 units (4,935 shares, net of offering costs, of Convertible Preferred Stock at \$9.99 per share and 34,545 of Common Stock at \$.001 per share)	36,098	25	--	36,123
October 1994-12,205 units (12,205 shares, net of at \$9.99 per share offering costs, of Convertible Preferred Stock and 85,435 of Common Stock at \$.001 per share)	88,895	62	--	88,957
October 1994-cancellation of 900,000 shares of Common Stock	--	--	--	--
November 1994-11,478 units (11,478 shares net of offering costs, of Convertible Preferred Stock at \$9.99 per share and 80,346 of Common Stock at \$.001 per share)	83,600	59	--	83,659
December 1994-16,430 units (16,430 shares, net of offering costs, of Convertible Preferred Stock at \$9.99 per share and 115,010 of Common Stock at \$.001 per share)	119,668	84	--	119,752
January 1995-12,225 units (12,225 shares, net of offering costs, of Convertible Preferred Stock at \$9.99 per share and 85,575 of Common Stock at \$.001 per share)	102,244	71	--	102,315
February 1995-98,081 units (98,081 shares, net of offering costs, of Convertible Preferred Stock at \$9.99 per share and 686,567 of Common Stock at \$.001 per share)	820,298	575	--	820,873
March 1995-cancellation of 1,100,000 shares of Common Stock	--	--	--	--
April 1995 - June 1995-issuance of 150,000 shares of Common Stock in exchange for consulting services	--	99,750	--	99,750
June 1995-24.9 units (24,900 shares, net of offering costs, of Convertible Preferred Stock at \$10 per share)	206,382	--	--	206,382
June 1995-issuance of options to purchase 10,000 shares of Common Stock at \$.25 per share in exchange for services	--	2,600	--	2,600
June 1995-conversion of 1,000 shares of Convertible Preferred Stock to 10,000 shares of Common Stocks	(8,262)	8,262	--	--
Net loss	--	--	(1,645,750)	(1,645,750)
Common stock dividend to be distributed - 3 shares of Common Stock for each outstanding share of Convertible Preferred Stock on August 1, 1995 (1,473,300 shares as of June 30, 1995)	--	780,849	(780,849)	--
	-----	-----	-----	-----
Balance, June 30, 1995	4,057,372	909,172	(4,572,111)	394,433

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USA Technologies, Inc.
(A Development Stage Corporation)

Statements of Shareholders' Equity (continued)

	Series A Convertible Preferred Stock	Common Stock	Deficit Accumulated During the Development Stage	Total

July 1995 - 145.1 units (145,100 shares, net of offering costs, of Convertible Preferred Stock at \$10 per share)	\$ 1,441,185	\$ --	\$ --	\$ 1,441,185
July 1995 - September 1995 - issuance of 100,000 shares of Common Stock in exchange for consulting services	--	50,000	--	50,000
July 1995 - Common Stock options exercised - 180,000 shares at \$.05 per share	--	9,000	--	9,000
August 1995 - Common stock dividend distributed -3 shares of Common Stock for each outstanding share of Preferred Stock on August 1, 1995 (435,300 shares)	--	230,709	(230,709)	--
October 1995 - Common Stock options exercised-100,000 shares at \$.05 per share	--	5,000	--	5,000
January 1996 - issuance of 30,000 shares of Common Stock in exchange for consulting services	--	14,205	--	14,205
February 1996 - issuance of 50,000 shares of Convertible Preferred Stock at \$4.00 per share	200,000	--	--	200,000
February 1996 - Common Stock warrants exercised-145,500 at \$.40 per warrant	--	58,200	--	58,200
March 1996 - Common Stock warrants exercised-125,500 at \$.40 per warrant	--	50,200	--	50,200
March 1996 - issuance of 300,000 shares of Common Stock in exchange for consulting services	--	183,000	--	183,000
March 1996 - cancellation of 305,000 shares of Common Stock	--	--	--	--
April 1996 - Common Stock warrants exercised - 264,000 at \$.30 per warrant	--	79,200	--	79,200
May 1996 - Common Stock warrants exercised - 381,000 at \$.30 per warrant	--	114,300	--	114,300
Refund to warrant holders due to the reduction of the 1995 Common Stock warrant exercise price from \$.40 per warrant to \$.30 per warrant	--	(27,100)	--	(27,100)
May 1996 - conversion of 20,175 shares of Convertible Preferred Stock to 201,750 shares of Common Stock	(171,689)	171,689	--	--
May 1996 - conversion of \$41,626 of cumulative preferred dividends into 41,626 shares of Common Stock at \$1.00 per share	--	41,626	(41,626)	--
June 1996 - Common Stock warrants exercised - 2,770,000 at \$.30 per warrant	--	831,000	--	831,000
June 1996 - 130 units (130,000 shares, net of offering costs, of Convertible Preferred Stock at \$10 per share)	1,249,264	--	--	1,249,264
Net loss	--	--	(2,451,697)	(2,451,697)
	-----	-----	-----	-----
Balance, June 30, 1996	6,776,132	2,720,201	(7,296,143)	2,200,190

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USA Technologies, Inc.
(A Development Stage Corporation)

Statements of Shareholders' Equity (continued)

	Series A Convertible Preferred Stock	Common Stock	Deficit Accumulated During the Development Stage	Total

October 1996 - issuance of 250,000 shares of Common Stock in exchange for consulting services	\$ --	\$117,500	\$ --	\$117,500
October 1996 - issuance of 15,000 shares of Common Stock in exchange for consulting services	--	8,000	--	8,000
November 1996 - conversion of 2,030 shares of Convertible Preferred Stock to 20,300 shares of Common Stock	(17,275)	17,275	--	--
November 1996 - conversion of \$4,868 of cumulative preferred dividends into 4,868 shares of Common Stock at \$1.00 per share	--	4,868	(4,868)	--
December 1996 - Common Stock warrants exercised - 2,345,000 at \$.20 per warrant	--	469,000	--	469,000
January 1997 - issuance of 7,750 shares of Convertible Preferred Stock at \$10.00 per share	77,500	--	--	77,500
January 1997 - Common Stock warrants exercised - 724,000 at \$.20 per warrant, net of offering costs	--	90,795	--	90,795
January 1997 - conversion of 2,450 shares of Convertible Preferred Stock to 24,500 shares of Common Stock	(20,850)	20,850	--	--
January 1997 - conversion of \$11,513 of cumulative preferred dividends into 11,513 shares of Common Stock at \$1.00 per share	--	11,513	(11,513)	--
February 1997 - issuance of 1,600 shares of Convertible Preferred Stock at \$10.00 per share, net of offering costs	16,000	--	--	16,000
February 1997 - Common Stock warrants exercised - 25,000 at \$.20 per warrant, net of offering costs	--	3,071	--	3,071
February 1997 - conversion of 250 shares of Convertible Preferred Stock to 2,500 shares of Common Stock	(2,128)	2,128	--	--
February 1997 - conversion of \$1,500 of cumulative preferred dividends into 1,500 shares of Common Stock at \$1.00 per share	--	1,500	(1,500)	--
March 1997 - issuance of 160,000 shares of Common Stock in exchange for consulting services	--	57,200	--	57,200
March 1997 - Common Stock warrants exercised - 108,000 at \$.20 per warrant, net of offering costs	--	13,242	--	13,242
March 1997 - conversion of 3,390 shares of Convertible Preferred Stock to 33,900 shares of Common Stock	(28,849)	28,849	--	--
March 1997 - conversion of \$10,170 of cumulative preferred dividends into 10,170 shares of Common Stock at \$1.00 per share	--	10,170	(10,170)	--
April 1997 - 1.2 units (2,400 shares of Convertible Preferred Stock at \$10,000 per unit, net of offering costs)	10,835	--	--	10,835
April 1997 - conversion of 6,800 shares of Convertible Preferred Stock to 81,600 shares of Common Stock	(58,004)	58,004	--	--

- continued -

USA Technologies, Inc.
(A Development Stage Corporation)

Statements of Shareholders' Equity (continued)

	Series A Convertible Preferred Stock	Common Stock	Deficit Accumulated During the Development Stage	Total

April 1997 - conversion of \$37,875 of cumulative preferred dividends into 45,633 shares of Common Stock at \$.83 per share	\$ --	\$ 37,874	\$ (37,874)	\$ --
April 1997- issuance of 40,000 shares of Common Stock in exchange for consulting services	--	12,349	--	12,349
May 1997 - 24.7 units (49,400 shares of Convertible Preferred Stock at \$10,000 per unit, net of offering costs)	223,034	--	--	223,034
May 1997 - conversion of 350 shares of Convertible Preferred Stock to 4,200 shares of Common Stock	(2,986)	2,986	--	--
May 1997 - conversion of \$11,625 of cumulative preferred dividends into 11,763 shares of Common Stock at \$.83 and \$1.00 per share	--	11,625	(11,625)	--
May 1997 - issuance of 40,000 shares of Common Stock in exchange for consulting services	--	14,143	--	14,143
June 1997 - 14.1 units (28,200 shares of Convertible Preferred Stock at \$10,000 per unit, net of offering costs)	127,319	--	--	127,319
June 1997 - conversion of 8,900 shares of Convertible Preferred Stock to 106,800 shares of Common Stock	(75,917)	75,917	--	--
June 1997 - conversion of \$39,599 of cumulative preferred dividends into 47,711 shares of Common Stock at \$.83 per share	--	39,599	(39,599)	--
June 1997 - issuance of 182,000 shares of Common Stock in exchange for consulting services	--	68,006	--	68,006
June 1997 - Common Stock options exercised - 150,000 at \$.05 per share	--	7,500	--	7,500
June 1997 - issuance of Common Stock, net of offering costs	--	451,169	--	451,169
Net loss	--	--	(3,120,712)	(3,120,712)
	-----	-----	-----	-----
Balance, June 30, 1997	\$ 7,024,811	\$ 4,355,334	\$(10,534,004)	\$ 846,141
	=====	=====	=====	=====

See accompanying notes.

USA Technologies, Inc.
(A Development Stage Corporation)

Statements of Cash Flows

	Year ended June 30		January 16, 1992 (date of inception) through June 30, 1997
	1997	1996	
Operating activities			
Net loss	\$(3,120,712)	\$(2,451,697)	\$(9,363,671)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	97,250	72,016	195,644
Provision for losses on equipment	--	44,100	383,756
Compensation charges incurred in connection with the issuance of Common Stock and Common Stock options	277,198	247,205	626,753
Changes in operating assets and liabilities:			
Accounts receivable	(127,318)	--	(127,318)
Inventory	48,073	(426,391)	(378,318)
Prepaid expenses, deposits, and other assets	9,702	(38,746)	(43,693)
Accounts payable	172,797	150,252	574,918
Accrued expenses	(8,332)	10,723	(2,529)
	(2,651,342)	(2,392,538)	(8,134,458)
Net cash used in operating activities			
Investing activities			
Purchase of property and equipment	(17,855)	(112,443)	(740,960)
Proceeds from sale of property and equipment	--	3,539	3,539
	(17,855)	(108,904)	(737,421)
Net cash used in investing activities			
Financing activities			
Net proceeds from issuance of Common Stock	1,141,126	1,013,450	2,172,287
Net proceeds from issuance of Convertible Preferred Stock	394,688	2,940,449	--
Change in accounts payable and accrued expenses relating to the private placement offering	--	(42,218)	--
Repayment of principal on capital lease obligations	(9,707)	(8,908)	(18,615)
Repayment of note payable, net	--	(4,166)	(2,298)
	1,526,107	3,898,607	9,502,145
Net cash provided by financing activities			
Net (decrease) increase in cash and cash equivalents	(1,143,090)	1,397,165	630,266
Cash and cash equivalents at beginning of period	1,773,356	376,191	--
Cash and cash equivalents at end of period	\$ 630,266	\$ 1,773,356	\$ 630,266

USA Technologies, Inc.
(A Development Stage Corporation)

Statements of Cash Flows (continued)

	Year ended June 30 1997	Year ended June 30 1996	January 16, 1992 (date of inception) through June 30, 1997
	-----	-----	-----
Supplemental disclosure of cash flow information			
Cash paid during the year for interest	\$ 10,549 =====	\$ -- =====	\$ 103,032 =====
Conversion of Convertible Preferred Stock to Common Stock	\$ 206,009 =====	\$ 171,689 =====	\$ 385,960 =====
Conversion of Cumulative Preferred Dividends to Common Stock	\$ 117,149 =====	\$ 41,626 =====	\$ 158,775 =====
Common stock dividend	\$ -- =====	\$ 230,709 =====	\$1,011,558 =====
Capital lease obligations incurred	\$ 22,200 =====	\$ 34,338 =====	
Stock subscription receivable	\$ 60,000 =====	\$ 106,350 =====	

See accompanying notes.

USA Technologies, Inc.
(A Development Stage Corporation)

Notes to Financial Statements

June 30, 1997

1. Business

USA Technologies, Inc. a Pennsylvania corporation (the "Company"), was incorporated on January 16, 1992. The Company changed its name from USA Entertainment Center, Inc. to USA Technologies, Inc. on June 7, 1995 to more accurately reflect the nature of its business. The Company is in the development stage and is an owner and licensor of unattended, credit card activated control systems for use in connection with copying machines, debit card purchase/revalue stations, facsimile machines, personal computers and computer printers. During September 1996, the Company commenced offering its control systems under the name Business Express(TM). Substantially all of the Company's activities to date have been devoted to raising capital, developing markets, and starting up operations. The Company's customers are located in the United States and Canada and are comprised of hotels, retail locations, university libraries, and public libraries. The Company generates its revenues by the sale of equipment utilizing its control systems and retaining a percentage of the gross licensing fees generated by the control systems, plus a monthly administrative service fee.

2. Accounting Policies

Basis of Financial Statement Presentation

The financial statements of the Company have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments that might be necessary should the Company be unable to continue in existence. The Company has been in the development stage since its inception in 1992 and has incurred substantial losses of \$2.4 million in 1996, \$3.1 million in 1997 and cumulative losses from its inception through June 30, 1997 amounting to \$9.4 million. Losses have continued through August 1997. The Company's ability to meet its future obligations is dependent upon the success of its products in the marketplace and its ability to raise capital until the Company's products can generate sufficient operating revenues. These factors raise doubt about the Company's ability to continue as a going concern. Management believes that actions presently being taken will provide for the Company to continue as a going concern. Such actions include the generation of revenues from operations, raising capital from the exercise of Common Stock purchase warrants, and/or the deferral of anticipated expenditures in order to satisfactorily meet its obligations.

USA Technologies, Inc.
(A Development Stage Corporation)

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Use of Estimates

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

Cash Equivalents

Cash equivalents represents all highly liquid investments with original maturities of three months or less. At June 30, 1997 cash equivalents were comprised of a money market fund and certificate 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. 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.

USA Technologies, Inc.
(A Development Stage Corporation)

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Research and Development

Research and development costs are charged to operations as incurred. Such research and development costs amounted to approximately \$344,000 and \$224,000 for the years ended June 30, 1997 and 1996, respectively, and approximately \$737,000 for the period January 16, 1992 (date of inception) to June 30, 1997. These costs are reflected in general and administrative and compensation in the accompanying financial statements.

Income Taxes

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

Accounting for Stock Options

Statement of Financial Accounting Standards No. 123 (FASB 123), "Accounting for Stock-Based Compensation" is effective for fiscal years beginning after December 15, 1995. FASB 123 provides companies with a choice to follow the provisions of FASB 123 in determination of stock-based compensation expense or to continue with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). The Company has elected to follow the provisions of APB 25. Under APB 25, because the exercise price of the Company's stock options equals or exceeds the market price of the underlying Common Stock on the date of grant, no compensation expense is recognized. The effect of applying FASB 123 to the Company's stock-based awards results in net loss and net loss per common share that are not materially different from amounts reported and, accordingly, the FASB 123 pro forma disclosures have not been provided.

USA Technologies, Inc.
(A Development Stage Corporation)

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Loss Per Common Share

Loss per common share is calculated based on the weighted average number of common shares outstanding during the year, including the weighted average impact of the 2,500,000 common shares held in escrow in connection with the June 1997 Placement (Note 9). No exercise of stock options, purchase rights, stock purchase warrants, or the conversion of preferred stock and cumulative preferred dividends was assumed because the assumed exercise of these securities would be antidilutive. The President's 4,365,000 common shares held in escrow (Note 11) 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. Property and Equipment

Property and equipment consist of the following:

	June 30	
	1997	1996
Control systems	\$ 269,590	\$ 261,387
Furniture and equipment	73,437	55,582
Vehicles	10,259	10,259
	-----	-----
	353,286	327,228
Less accumulated depreciation	174,829	92,014
	-----	-----
	\$ 178,457	\$ 235,214
	=====	=====

USA Technologies, Inc.
(A Development Stage Corporation)

Notes to Financial Statements (continued)

4. Accrued Expenses

Accrued expenses consist of the following:

	June 30	
	1997	1996
Accrued rent	\$ 10,341	\$ 34,104
Accrued other	36,401	7,455
	<u>\$ 46,742</u>	<u>\$ 41,559</u>

5. Related Party Transactions

At June 30, 1997 and 1996, approximately \$27,000 and \$14,000, respectively, of the Company's accounts payable are due to several shareholders for various legal and technical services performed.

During July 1996, the Company formalized certain agreements with two Directors of the Company who performed consulting services during fiscal year 1996. During the year ended June 30, 1996, \$98,600 was paid for such services performed.

6. Commitments

The Company conducts its operations from various facilities under operating leases. Rental expense under such arrangements was approximately \$94,000 and \$69,000, respectively, during the years ended June 30, 1997 and 1996 and \$327,000 for the period January 16, 1992 (date of inception) to June 30, 1997.

During the years ended June 30, 1997 and 1996, the Company entered into agreements to lease \$22,200 and \$34,400, respectively, of computer equipment which has been accounted for as capital leases. This computer equipment is included in control systems at June 30, 1997 and 1996. Lease amortization of \$17,600 and \$5,700 is included in depreciation expense for the year ended June 30, 1997 and 1996, respectively.

USA Technologies, Inc.
(A Development Stage Corporation)

Notes to Financial Statements (continued)

6. Commitments (continued)

Future minimum lease payments subsequent to June 30, 1997 under capital and noncancelable operating leases are as follows:

	Capital Leases	Operating Leases
	-----	-----
1998	\$ 26,055	\$ 95,000
1999	26,055	75,000
2000	1,717	28,000
2001	-	3,000
	-----	-----
Total minimum lease payments	53,827	\$ 201,000
		=====
Less amount representing interest (25% per annum)	11,077	

Present value of net minimum lease payments	42,750	
Less current obligation under capital leases	18,270	

Obligation under capital leases, less current portion	\$ 24,480	
	=====	

During August 1997, the Company entered into an agreement with a vendor whereby the Company committed to acquire 500 control systems for \$242,325. The control systems are anticipated for delivery by the Company throughout fiscal year 1998.

USA Technologies, Inc.
(A Development Stage Corporation)

Notes to Financial Statements (continued)

7. Income Taxes

At June 30, 1997 and 1996, the Company had net tax operating loss carryforwards of approximately \$8,181,000 and \$5,176,000, respectively, to offset future taxable income expiring through 2012. At June 30, 1997 and 1996, the Company recorded a deferred tax asset of \$3,402,000 and \$2,537,000, respectively, which were reduced by a valuation allowance of the same amount as the realization of these deferred tax assets are not certain. The deferred tax assets arose primarily from the use of different accounting methods for financial statement and income tax reporting purposes as follows:

	June 30	
	1997	1996
Deferred tax asset:		
Net operating loss carryforwards	\$ 3,081,000	\$ 2,174,000
Deferred research and development costs	226,000	159,000
Deferred pre-operating costs	84,000	158,000
Other temporary differences	20,000	64,000
	3,411,000	2,555,000
Deferred tax liabilities:		
Depreciation	(9,000)	(18,000)
Deferred tax asset, net	3,402,000	2,537,000
Valuation allowance	(3,402,000)	(2,537,000)
	\$ --	\$ --

As of June 30, 1993, the timing and manner in which the Company can utilize operating loss carryforwards and future tax deductions for capitalized items in any year was limited by provisions of the Internal Revenue Code regarding changes in ownership of corporations. The Company believes that such limitation will have an impact on the ultimate realization of its carryforwards and future tax deductions (generated through June 30, 1993). Cumulative losses generated for income tax purposes after June 30, 1993 through June 30, 1997, may be subject to similar limitation.

USA Technologies, Inc.
(A Development Stage Corporation)

Notes to Financial Statements (continued)

8. Preferred Stock

The Preferred Stock authorized may be issued from time to time in one or more series, each series with such rights, preferences or restrictions as determined by the Board of Directors. Each share of Series A Preferred Stock shall have the right to ten votes and is convertible at any time into ten shares of Common Stock (each share of Common Stock entitles the holder to one voting right). (For the period from March 24, 1997 to December 31, 1997, each share of Series A Preferred Stock is convertible into twelve shares of Common Stock). Series A Convertible Preferred Stock provides for an annual cumulative dividend of \$1.50 per share payable to the shareholders of record on February 1 and August 1 of each year. Cumulative unpaid dividends at June 30, 1997 and 1996 amounted to \$2,837,086 and \$1,758,490, respectively. Cumulative unpaid dividends are convertible into common shares at \$1.00 per common share at the option of the shareholder. (For the period from March 24, 1997 to December 31, 1997, the cumulative unpaid dividends are convertible into common shares at \$.83 per common share). During the years ended June 30, 1997 and 1996, certain holders of the Preferred Stock converted 24,170 and 20,175 shares, respectively, into 273,800 and 201,750 shares of Common Stock, respectively. Certain of these shareholders also converted cumulative preferred dividends of \$117,149 and \$41,626, respectively, into 133,158 and 41,626 shares of Common Stock at June 30, 1997 and 1996, respectively. The Series A Preferred Stock may be called for redemption at the option of the Board of Directors at any time on and after January 1, 1998 for a price of \$11.00 per share plus payment of all accrued and unpaid dividends. In the event of any liquidation, the holders of shares of Series A Preferred Stock issued shall be entitled to receive \$10.00 for each outstanding share plus all cumulative unpaid dividends. If funds are insufficient for this distribution, the assets available will be distributed ratably among the preferred shareholders.

USA Technologies, Inc.
(A Development Stage Corporation)

Notes to Financial Statements (continued)

9. Common Stock Transactions

The following is a summary of significant equity transactions:

- o On June 23, 1997, the Company closed on a private placement offering of Convertible Debentures (the Placement) resulting in net proceeds to the Company of \$451,169 (\$500,000 less offering costs of \$48,831). The Placement was issued pursuant to Regulation S of the Securities Act of 1933 to five qualified purchasers, as defined, (Purchasers). The Placement is convertible by the Purchasers into Common Stock at any time after 45 days from issuance (August 7, 1997) and through the Placement's maturity of June 1, 2002 at the option of the Purchaser. The Company has the right to redeem the unconverted portion of the Placement at any time after June 23, 1998 through June 1, 2002. The conversion or redemption rate (hereinafter referred to as conversion rate) is equal to the lesser of 100% of the average closing bid price of the Common Stock for the five trading days immediately preceding June 23, 1997, or 65% of the average closing bid price of the Common Stock for the five trading days immediately preceding the date prior to the conversion or redemption date. Upon maturity (unless converted or redeemed prior thereto), the Placement would be automatically converted into shares of Common Stock at the conversion rate. As the terms and intent of the Placement were to raise equity for the Company through the issuance of Common Stock, and the terms of the Placement do not provide for the repayment of principal in cash, the substance of the Placement is that of an equity transaction and, accordingly, the net proceeds have been reflected as Common Stock in the accompanying financial statements.

As a requirement to the closure of the Placement, the Company placed an aggregate of 2,500,000 shares of Common Stock in escrow to ensure such shares would be available upon conversion of the Placement by the Purchasers. As the 2,500,000 shares held in escrow were legally issued and outstanding at June 30, 1997, such shares are included in the common shares issued and outstanding in the accompanying balance sheet. Upon conversion by the Purchasers, the Placement and escrow shares will be canceled and the appropriate number of shares of Common Stock will be issued to the Purchasers. During August 1997, \$375,000 of the Placement was converted (at varying prices) into 1,377,942 of common shares, and the escrowed shares were reduced to 625,000.

USA Technologies, Inc.
(A Development Stage Corporation)

Notes to Financial Statements (continued)

9. Common Stock Transactions (continued)

Certain affiliates of the placement agent were issued non-detachable Common Stock purchase warrants, exercisable immediately, to purchase up to 2,000,000 shares of the Company's Common Stock at \$.20 per warrant at any time through June 22, 2002. No warrants were exercised at June 30, 1997.

- o During March 1997, the Company's Board of Directors authorized a \$1,100,000 private placement offering of 110 units at a unit price of \$10,000. Each unit included 2,000 shares of Convertible Preferred Stock and 40,000 1997 Common Stock warrants at an exercise price of \$.20 through August 31, 1997 and \$.40 thereafter for five years after the termination of the offering. During June 1997, the Company's Board of Directors authorized the reduction of this offering to a maximum of 40 units at an aggregate sales price of \$400,000. As of June 30, 1997, 40 units were sold, generating net proceeds of \$361,189 (\$400,000 less offering costs of \$38,811). The subscriptions receivable of \$60,000 as of June 30, 1997, recorded in connection with this offering, were received in August, 1997. The Company terminated this offering on July 3, 1997. At June 30, 1997, all 1,600,000 1997 Common Stock purchase warrants are outstanding.
- o During March 1997, the Company's Shareholders approved an increase in the number of the Company's authorized common stock shares to 55,000,000; an increase in the number of designated shares of Series A Convertible Preferred Stock to 1,200,000; an increase in the number of shares of Common Stock into which each share of Series A Preferred Stock may be exchanged, from 10 to 12, for the period from March 24, 1997 to December 31, 1997; and a decrease in the price at which accrued but unpaid dividends on Series A Preferred Stock may be exchanged for shares of Common Stock, from \$1.00 to \$.83, for the period from March 24, 1997 to December 31, 1997.
- o During November 1996, the Company's Board of Directors authorized a \$200,000 private placement offering 20 units at a price of \$10,000. Each unit included 1,000 shares of Series A Convertible Preferred Stock and 40,000 1996-B Common Stock purchase warrants at an exercise price of \$.20 per share through August 31, 1997 and \$.30 per share through February 28, 2002. The offering closed during February 1997 resulting in the sale of 93.5 units generating proceeds of \$93,500. At June 30, 1997, the 374,000 1996-B Common Stock purchase warrants are outstanding.

USA Technologies, Inc.
(A Development Stage Corporation)

Notes to Financial Statements (continued)

9. Common Stock Transactions (continued)

- o During April 1996, the Company's Board of Directors authorized a \$1,300,000 private placement offering of 130 units at a unit price of \$10,000 and each unit included 40,000 1996 Common Stock purchase warrants and 1,000 shares of Series A Convertible Preferred Stock. As of June 30, 1996, all 130 units were sold, generating net proceeds of \$1,249,264 (\$1,300,000 less offering costs of \$50,736). The 5,200,000 1996 warrants issued are exercisable at any time on or before May 31, 2001, unless such date is extended by the Company. Each warrant entitles the holder to purchase one share of Common Stock for \$.40 through December 31, 1996 and for \$.50 at any time thereafter through May 31, 2001. During November 1996, the exercise price of the 1996 warrants was reduced by the Company from \$.40 to \$.20 during the period November 1, 1996 through February 28, 1997, after which the exercise price will increase to \$.50 (Note 12). During the year ended June 30, 1997, 3,202,000 warrants were exercised at \$.20 per warrant generating gross proceeds of \$640,400. At June 30, 1997, there are 1,998,000 1996 Common Stock purchase warrants outstanding.
- o During 1995, the Company issued Common Stock purchase warrants (the 1995 warrants) which are exercisable at any time on or before January 31, 2001, unless such date is extended by the Company. Each 1995 warrant entitles the holder to purchase one share of Common Stock for \$.50. The exercise price of the 1995 warrants may be reduced by the Company at any time, or from time to time (Note 12). At June 30, 1997, the Company had 1,414,000 of 1995 Common Stock purchase warrants outstanding.
- o The Company has outstanding 157,300 Common Stock purchase rights at \$1.00 per share which are exercisable through 1998.

USA Technologies, Inc.
(A Development Stage Corporation)

Notes to Financial Statements (continued)

10. Stock Options

The Company's Board of Directors has granted options to employees and consultants to purchase shares of Common Stock at or above fair market value. All options granted have 5 year terms and vest and become fully exercisable on the schedule established by the contract which granted the option. During November 1996 and June 1997, the Company's Board of Directors authorized the reduction in the exercise price of 650,000 options from \$.65 to \$.45 per share. These shares were previously issued during the periods March 1996 through November 1996. The new exercise price of these options was equal to or greater than the fair market value of the Common Stock on the date of such reduction.

The following table summarizes all stock option activity:

	Common Shares Under Options Granted -----	Exercise Price Per Share -----
Balance at June 30, 1993	-	\$ -
Granted	875,000	\$.25

Balance at June 30, 1994	875,000	
Canceled	(100,000)	\$.25
Granted	2,290,000	\$.05-.25

Balance at June 30, 1995	3,065,000	
Granted	550,000	\$.65
Exercised	(280,000)	\$.05

Balance at June 30, 1996	3,335,000	\$.05-.65
Granted	815,000	\$.25-.65
Exercised	(150,000)	\$.05
Canceled	(29,000)	\$.45

Balance at June 30, 1997	3,971,000	\$.05-.50
	=====	

At June 30, 1997, 3,196,000 of these options were exercisable.

USA Technologies, Inc.
(A Development Stage Corporation)

Notes to Financial Statements (continued)

11. 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 8,395,000 shares, as adjusted, 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 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 his 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 years ended June 30, 1997 and 1996, there was no such charge to operations. The 4,365,000 shares of Common Stock held by the President are not considered outstanding for purposes of calculating the loss per common share for all periods presented.

12. Events (Unaudited) Subsequent to the Date of the Report of Independent Auditors

During the first quarter of 1998, 1,489,200 and 224,000 of 1997 and 1996-B Common Stock warrants, respectively, were exercised at \$.20 per warrant generating total gross proceeds to the Company of \$342,640.

During the first quarter of 1998, certain holders of the Company's Preferred Stock converted 216,910 shares into 2,602,920 shares of Common Stock. Certain of these shareholders also converted cumulative preferred dividends of \$518,026 into 624,128 shares of Common Stock.

During September 1997, the Company's Board of Directors reduced the exercise price of the 1995 Common Stock Purchase Warrants and the 1996 Common Stock Purchase Warrants from \$.50 to \$.25 through October 31, 1997. Thereafter the exercise price will be \$.50. Further, the reduced \$.20 exercise price of the 1996-B Common Stock Warrants and the 1997 Common Stock Warrants was extended through September 30, 1997. Thereafter the exercise price will be \$.50.

During September 1997, an additional \$55,000 of the Placement (Note 9) was converted into 190,575 shares of the Company's Common Stock.

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which the Prospectus relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is current as of any time subsequent to its date.

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PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 24. Indemnification of Officers and Directors.

Section 1746 of the Pennsylvania Business Corporation Law of 1988, as amended ("BCL"), authorizes a Pennsylvania corporation to indemnify its officers, directors, employees and agents under certain circumstances against expenses and liabilities incurred in legal proceedings involving such persons because of their holding or having held such positions with the corporation and to purchase and maintain insurance of such indemnification. The Company's Bylaws substantively provide that the Company will indemnify its officers, directors, employees and agents to the fullest extent provided by Section 1746 of the BCL.

Section 1713 of the BCL permits a Pennsylvania corporation, by so providing in its By-laws, to eliminate the personal liability of a director for monetary damages for any action taken unless the director has breached or failed to perform the duties of his office and the breach or failure constitutes self-dealing, willful misconduct or recklessness. In addition, no such limitation of liability is available with respect to the responsibility or liability of a director pursuant to any criminal statute or for the payment of taxes pursuant to Federal, state or local law. The Company's By-laws eliminate the personal liability of the directors to the fullest extent permitted by Section 1713 of the BCL.

Item 25. Other Expenses of Issuance and Distribution.

The following is an itemized statement of the estimated amounts of all expenses payable by the Registrant in connection with the registration of the Common Stock, other than underwriting discounts and commissions.

Securities and Exchange Commission - Registration Fee	\$ 896.56
Blue Sky fees and expenses.	\$ 3,000.00
Printing and Engraving Expenses	\$15,000.00
Accounting Fees and Expenses.	\$19,000.00
Legal Fees and Expenses	\$19,000.00
Miscellaneous	\$ 3,103.44

Total	\$60,000.00

Item 26. Recent Sales of Unregistered Securities.

During the three years immediately preceding the date of the filing of this Registration Statement, the following securities were issued by the Company without registration under the Securities Act of 1933, as amended ("Act"):

I. Private Placements.

During June and July 1995, the Company sold 170 Units at \$10,000 each pursuant to a private placement under Rule 506 of Regulation D promulgated under the Act. Each Unit consisted of 1,000 shares of Preferred Stock and 30,000 1995 Common Stock Purchase Warrants. An aggregate of 170,000 shares of Preferred Stock and 5,100,000 1995 Common Stock Purchase Warrants were sold to 226 accredited investors. In connection therewith, William W. Sellers, a Director of the Company, purchased an aggregate of 2,225 shares of Preferred Stock and 66,750 1995 Common Stock Purchase Warrants.

During February 1996, the Company sold 50,000 shares of Preferred Stock at \$4.00 per share pursuant to Regulation S promulgated under the Act.

During May 1996, the Company sold 130 units at \$10,000 each pursuant to a private placement under Rule 506 of Regulation D promulgated under the Act. Each unit consisted of 1,000 shares of Preferred Stock and 40,000 1996 Common Stock Purchase Warrants. An aggregate of 130,000 shares of Preferred Stock and 5,200,000 1996 Common Stock Purchase Warrants were issued to 100 accredited investors and 33 non-accredited investors. In connection therewith, William W. Sellers, a Director of the Company, purchased 4,000 shares of Preferred Stock and 160,000 1996 Common Stock Purchase Warrants.

During January and February 1997, the Company sold 9.35 units at \$10,000 each pursuant to a private placement under Rule 506 of Regulation D promulgated under the Act. Each unit consisted of 1,000 shares of Preferred Stock and 40,000 1996-B Common Stock Purchase Warrants. An aggregate of 9,350 shares of Preferred Stock and 374,000 1996-B Common Stock Purchase Warrants were sold to 16 accredited investors.

During April, May, June and July 1997, the Company sold 40 units at \$10,000 each pursuant to a private placement under Rule 506 of Regulation D promulgated under the Act. Each unit consisted of 2,000 shares of Preferred Stock and 40,000 1997 Common Stock Purchase Warrants. An aggregate of 80,000 shares of Preferred Stock and 1,600,000 1997 Common Stock Purchase Warrants were sold to 44 accredited investors and 10 non-accredited investors.

During June 1997, the Company issued an aggregate of \$500,000 of Convertible Securities pursuant to an agreement with Gem Advisors Inc. ("GEMA") which provided GEMA with the exclusive right to place the Convertible Securities with qualified purchasers. The Convertible Securities were issued by the Company pursuant to Regulation S promulgated under the Act. Upon completion of the sale of the Convertible Securities, GEMA received 8% of the gross proceeds (i.e. \$40,000) as a management/documentation fee. In addition, affiliates and/or consultants to GEMA received non-redeemable warrants to purchase up to 2,000,000 shares of the Company's Common Stock at a price of \$.20 per share at any time prior to June 23, 2002. These warrants have been issued by the Company pursuant to Regulation S.

II. Stock Options

In March 1995, the Company issued to the following officers, directors, consultants and employees, options to acquire an aggregate of 1,305,000 shares of Common Stock at \$.25 per share:

Grantee	Number of shares of Common Stock purchasable Under the Options Granted
Henry B. duPont Smith	100,000
Keith L. Sterling	100,000
William W. Sellers	55,000
Peter G. Kapourellos	70,000
William L. Van Alen, Jr.	25,000
Adele Hepburn	500,000
Austin Hepburn	390,000
Robert Leiser	40,000
Doug Anette	25,000

In March 1995, the Company issued to two consultants, Howard Bronson and Kelly Capital, options to acquire an aggregate of 500,000 shares of Common Stock at \$.05 per share.

In March 1995, the Company issued to H. Brock Kolls options to purchase up to 150,000 shares of Common Stock at \$.25 per share.

In June 1995, the Company issued to Barry Slawter options to purchase up to 10,000 shares of Common Stock at \$.25 per share.

In March 1996, the Company issued to Haven Brock Kolls options to purchase up to 50,000 shares of Common Stock at \$.65 per share.

In April 1996, the Company issued to Stephen Herbert options to purchase up to 400,000 shares of Common Stock at \$.65 per share.

In May 1996, the Company issued to Keith Sterling options to purchase up to 50,000 shares of Common Stock at \$.65 per share.

In May 1996, the Company issued to Edward Sullivan options to purchase up to 50,000 shares of Common Stock at \$.65 per share.

In July 1996, the Company issued to Michael Lawlor options to purchase up to 100,000 shares of Common Stock at \$.65 per share.

In August 1996, the Company issued to RAM Group, a consultant, options to purchase up to 50,000 shares of Common Stock at \$.50 per share.

In September 1996, the Company issued to Joseph Donahue options to purchase up to 50,000 shares of Common Stock at \$.45 per share.

In November 1996, the Company issued to RAM Group, a consultant, options to purchase up to 50,000 shares of Common Stock at \$.50 per share.

In November 1996, the Company issued to Phillip A. Harvey options to purchase up to 50,000 shares of Common Stock at \$.65 per share.

In November 1996, the Company issued to Michael Feeney options to purchase up to 10,000 shares of Common Stock at \$.50 per share.

In February 1997, the Company issued to Leland P. Maxwell options to purchase up to 200,000 shares of Common Stock at \$.45 per share.

In June 1997, the Company issued to Haven Brock Kolls options to purchase up to 100,000 shares of Common Stock at \$.45 per share.

In June 1997, the Company issued to Keith Sterling options to purchase up to 100,000 shares of Common Stock at \$.45 per share.

In June 1997, the Company issued to Stephen Herbert options to purchase up to 100,000 shares of Common Stock at \$.45 per share.

In June 1997, the Company issued to Michael Feeney options to purchase up to 10,000 shares of Common Stock at \$.45 per share.

In September 1997, the Company issued to the RAM Group, a consultant, options to purchase up to 50,000 shares of Common Stock at \$.50 per share.

The issuance of all of the foregoing options was made in reliance upon the exemption provided by Section 4(2) of the Act.

III. Common Stock-For Cash.

In July 1995, options to purchase 180,000 shares of Common Stock at \$.05 per share were exercised by the holders thereof. All of such shares were issued by the Company in reliance on Section 4(2) of the Act.

In October 1995, options to purchase 100,000 shares of Common Stock at \$.05 per share were exercised by the holder thereof. All of such shares were issued by the Company in reliance on Section 4(2) of the Act.

In June 1997, options to purchase 150,000 shares of Common Stock at \$.05 per share were exercised by the holders thereof. All of such shares were issued by the Company in reliance on Section 4(2) of the Act.

IV. Stock Dividend.

The Company issued a stock dividend consisting of 3 shares of Common Stock for each share of Preferred Stock issued and outstanding on August 1, 1995. Based on the 636,200 shares of Preferred

Stock issued and outstanding on such date, an aggregate of 1,908,600 shares of Common Stock were distributed to the holders of the Preferred Stock. Pursuant thereto, 48,000 shares were issued to Mr. Jensen, 1,500 shares were issued to Mr. Kolls, 3,000 shares were issued to Mr. Kapourellos, 11,175 shares were issued to Mr. Sellers, and 30,000 shares were issued to Mr. Smith. The issuance of this Common Stock was made in reliance on the exemption provided by Section 4(2) of the Act.

Item 27. Exhibits.

Exhibit Number	Description
3.1	Articles of Incorporation of Company filed on January 16, 1992 (Incorporated by reference to Exhibit 3.1 to Form SB-2 Registration Statement No. 33-70992)
3.1.1	First Amendment to Articles of Incorporation of the Company filed on July 17, 1992 (Incorporated by reference to Exhibit 3.1.1 to Form SB-2 Registration Statement No. 33-70992)
3.1.2	Second Amendment to Articles of Incorporation of the Company filed on July 27, 1992 (Incorporated by reference to Exhibit 3.1.2 to Form SB-2 Registration Statement No. 33-70992)
3.1.3	Third Amendment to Articles of Incorporation of the Company filed on October 5, 1992 (Incorporated by reference to Exhibit 3.1.3 to Form SB-2 Registration Statement No. 33-70992)
3.1.4	Fourth Amendment to Articles of Incorporation of the Company filed on October 18, 1993 (Incorporated by reference to Exhibit 3.1.4 to Form SB-2 Registration Statement No. 33-70992)
3.1.5	Fifth Amendment to Articles of Incorporation of the Company filed on June 7, 1995 (Incorporated by reference to Exhibit 3.1 to Form 5.3 Registration Statement No. 33-98808, filed October 31, 1995)
3.1.6	Sixth Amendment to Articles of Incorporation of the Company filed on May 1, 1996 (Incorporated by reference to Exhibit 3.1.6 to Form SB-2 Registration Statement No. 333-09465)
3.1.7	Seventh Amendment to Articles of Incorporation of the Company filed on March 24, 1997. (Incorporated by reference to Exhibit 3.1.7 to Form SB-2 Registration Statement No. 333-30853).
3.2	By-Laws of the Company (Incorporated by reference to Exhibit 3.2 to Form SB-2 Registration Statement No. 33-70992)

Exhibit Number -----	Description -----
4.1	1995 Warrant Agreement dated as of June 21, 1995 between the Company and American Stock Transfer and Trust Company
4.2	Form of 1995 Warrant Certificate
5.1	Opinion of Lurio & Associates
10.1	Amended and Restated Employment and Non-Competition Agreement between the Company and George R. Jensen, Jr., dated as of July 1, 1992 (Incorporated by reference to Exhibit 10.3 to Form SB-2 Registration Statement No. 33-70992)
10.1.2	First Amendment to Amended and Restated Employment and Non-Competition Agreement between the Company and George R. Jensen, Jr., dated as of April 29, 1996 (Incorporated by reference to Exhibit 10.1.2 to Form SB-2 Registration Statement No. 33-09465)
10.2	Employment and Non-Competition Agreement between the Company and Keith L. Sterling dated as of July 1, 1993 (Incorporated by reference to Exhibit 10.4 to Form SB-2 Registration Statement No. 33-70992)
10.2.1	First Amendment to Employment and Non-Competition Agreement between the Company and Keith L. Sterling dated as of April 29, 1996 (Incorporated by reference to Exhibit 10.2.1 to Form SB-2 Registration Statement No. 333-09465)
10.3	Employment and Non-Competition Agreement between the Company and Edward J. Sullivan dated as of July 1, 1993 (Incorporated by reference to Exhibit 10.5 to Form SB-2 Registration Statement No. 33-70992)
10.3.1	First Amendment to Employment and Non-Competition Agreement between the Company and Edward J. Sullivan dated as of April 29, 1996 (Incorporated by reference to Exhibit 10.3.1 to Form SB-2 Registration Statement No. 333-09465)
10.4	Employment and Non-Competition Agreement between the Company and Adele Hepburn dated as of January 1, 1993 (Incorporated by reference to Exhibit 10.7 to Form SB-2 Registration Statement No. 33-70992)
10.5	Robert L. Bartlett Common Stock Options dated as of July 1, 1993 (Incorporated by reference to Exhibit 10.9 to Form SB-2 Registration Statement No. 33-70992)

Exhibit Number	Description
10.6	Edward J. Sullivan Common Stock Options dated as of July 1, 1993 (Incorporated by reference to Exhibit 10.10 to Form SB-2 Registration Statement No. 33-70992)
10.6.1	Edward J. Sullivan Common Stock Options dated as of April 29, 1996 (Incorporated by reference to Exhibit 10.6.1 to Form SB-2 Registration Statement No. 333-09465)
10.7	Keith L. Sterling Common Stock Options dated July 1, 1993 (Incorporated by reference to Exhibit 10.11 to Form SB-2 Registration Statement No. 33-70992)
10.7.1	Keith L. Sterling Common Stock Options dated as of April 29, 1996 (Incorporated by reference to Exhibit 10.7.1 to Form SB-2 Registration Statement No. 333-09465)
10.8	Adele Hepburn Common Stock Options dated as of July 1, 1993 (Incorporated by reference to Exhibit 10.12 to Form SB-2 Registration Statement No. 33-70992)
10.9	Gregory C. Rollins Common Stock Options dated as of August 23, 1993 (Incorporated by reference to Exhibit 10.13 to Form SB-2 Registration Statement No. 33-70992)
10.10	Lease Agreement for Principal Executive Office dated October 1, 1992 (Incorporated by reference to Exhibit 10.14 to Form SB-2 Registration Statement No. 33-70992)
10.10.1	First Amendment to Lease for Principal Executive Office dated July 13, 1993 (Incorporated by reference to Exhibit 10.14.1 to Form SB-2 Registration Statement No. 33-70992)
10.11	Application Sales Agreement of the Company to Card Establishment Services, Inc. and letter of acceptance thereof (Incorporated by reference to Exhibit 10.15 to Form SB-2 Registration Statement No. 33-70992)
10.12	Non-Disclosure Agreement between USA Entertainment Center, Inc. and Card Establishment Services, Inc. (Incorporated by reference to Exhibit 10.16 to Form SB-2 Registration Statement No. 33-70992)

Exhibit Number	Description
10.13	Certificate of Appointment of American Stock Transfer & Trust Company as Transfer Agent and Registrar dated October 8, 1993 (Incorporated by reference to Exhibit 10.23 to Form SB-2 Registration Statement No. 33-70992)
10.14	Form of Escrow Agreement between the Company, Meridian Trust Company and various shareholders dated as of December 28, 1993 (Incorporated by reference to Exhibit 10.31 to Form SB-2 Registration Statement No. 33-70992)
10.14.1	Modification to Escrow Agreement dated as of October 6, 1994 between the Company, Meridian Trust Company and George R. Jensen, Jr. (Incorporated by reference to Exhibit 10.31.1 to Form SB-2 Registration Statement No. 33-70992)
10.14.2	Joinder to Escrow Agreement dated as of February 14, 1996 by each of Haven Brock Kolls, Barry Slawter, and Henry B. duPont Smith (Incorporated by reference to Exhibit 10.14.2 to Form SB-2 Registration Statement No. 333-09465)
10.15	Employment and Non-Competition Agreement between the Company and H. Brock Kolls dated as of May 1, 1994 (Incorporated by reference to Exhibit 10.32 to Form SB-2 Registration Statement No. 33-70992)
10.15.1	First Amendment to Employment and Non-Competition Agreement between the Company and H. Brock Kolls dated as of March 20, 1996 (Incorporated by reference to Exhibit 10.15.1 to Form SB-2 Registration Statement No. 333-09465)
10.16	Agreement of Lease dated March 16, 1994, by and between the Company and G.F. Florida Operating Alpha, Inc. (Incorporated by reference to Exhibit 10.33 to Form SB-2 Registration Statement No. 33-70992)
10.17	Megan N. Cherney Common Stock Options dated as of April 1, 1994 (Incorporated by reference to Exhibit 10.41 to Form SB-2 Registration Statement No. 33-70992)
10.18	H. Brock Kolls Common Stock Options dated as of May 1, 1994 (Incorporated by reference to Exhibit 10.42 to Form SB-2 Registration Statement No. 33-70992)

Exhibit Number -----	Description -----
10.18.1	H. Brock Kolls Common Stock Options dated as of March 20, 1996 (Incorporated by reference to Exhibit 10.18.1 to Form SB-2 Registration Statement No. 333-09465)
10.19	Barry Slawter Common Stock Options dated as of August 25, 1994 (Incorporated by reference to Exhibit 10.43 to Form SB-2 Registration Statement No. 33-70992)
10.20	Employment and Non-Competition Agreement between the Company and Barry Slawter dated as of July 12, 1994 (Incorporated by reference to Exhibit 10.44 to Form SB-2 Registration Statement No. 33-70992)
10.21	Employment Agreement dated June 30, 1994 between the Company and Megan N. Cherney (Incorporated by reference to Exhibit 10.45 to Form SB-2 Registration Statement No. 33-70992)
10.22	First Amendment to Employment and Non-Competition Agreement dated September 2, 1994 between Barry Slawter and the Company (Incorporated by reference to Exhibit 10.46 to Form SB-2 Registration Statement No. 33-70992)
10.23	Consulting Agreement between Jerome M. Wenger and the Company dated March 24, 1995 (incorporated by reference to Exhibit 28 to the Form S-8 Registration Statement No. 33-92038 filed on May 6, 1995)
10.24	Amendment to Consulting Agreement between Jerome M. Wenger and the Company dated May 19, 1995 (incorporated by reference to Exhibit 28.2 to Form S-8 filed on November 1, 1995)
10.25	First Amendment to Employment And Non-Competition Agreement between the Company and Barry Slawter dated September 28, 1995
10.26	Remarketer/Integrator Agreement between the Company and Dell Computer Corporation dated February 8, 1996 (Incorporated by reference to Exhibit 10.26 to Form SB-2 Registration Statement No. 333-09465)

Exhibit Number -----	Description -----
10.27	Letter Agreement between the Company and Diversified Corporate Consulting Group, L.P., dated February 7, 1996 (Incorporated by reference to Exhibit 28.2 to Form S-8 Registration Statement No. 333-2614)
10.28	Employment And Non-Competition Agreement between the Company and Michael Lawlor dated June 7, 1996 (Incorporated by reference to Exhibit 10.28 to Form SB-2 Registration Statement No. 333-09455).
10.29	Michael Lawlor Common Stock Option Certificate dated as of July 8, 1996 (Incorporated by reference to Exhibit 10.29 to Form SB-2 Registration Statement No. 333-09455).
10.30	Employment And Non-Competition Agreement between the Company and Stephen P. Herbert dated April 4, 1996 (Incorporated by reference to Exhibit 10.30 to Form SB-2 Registration Statement No. 333-09455).
10.31	Stephen P. Herbert Common Stock Option Certificate dated April 4, 1996 (Incorporated by reference to Exhibit 10.31 to Form SB-2 Registration Statement No. 333-09455).
10.32	Letter between the Company and William W. Sellers dated July 17, 1996 (Incorporated by reference to Exhibit 10.32 to Form SB-2 Registration Statement No. 333-09455).
10.33	Letter between the Company and Peter G. Kapourellos dated July 17, 1996 (Incorporated by reference to Exhibit 10.33 to Form SB-2 Registration Statement No. 333-09455).
10.34	RAM Group Common Stock Option Certificate dated as of August 22, 1996 (Incorporated by reference to Exhibit 10.34 to Form SB-2 Registration No. 33-98808).
10.35	RAM Group Common Stock Option Certificate dated as of November 1, 1996 (Incorporated by reference to Exhibit 10.35 to Form SB-2 Registration No. 33-98808).
10.36	Philip A. Harvey Common Stock Option Certificate dated as of November 1, 1996 (Incorporated by reference to Exhibit 10.36 to Form SB-2 Registration No. 33-98808).
10.37	Joseph Donahue Common Stock Option Certificate dated as of September 2, 1996 (Incorporated by reference to Exhibit 10.37 to Form SB-2 Registration No. 33-98808).

- 10.38 Separation and Consulting Agreement between the Company and Edward J. Sullivan dated December 17, 1996 (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on December 19, 1996).
 - 10.39 Employment and Non-Competition Agreement between the Company and Leland P. Maxwell dated February 24, 1997. (Incorporated by reference to Exhibit 10.39 to Form SB-2 Registration No. 33-98808).
 - 10.40 Leland P. Maxwell Common Stock Option Certificate dated February 24, 1997. (Incorporated by reference to Exhibit 10.40 to Form SB-2 Registration No. 33-98808).
 - 10.41 Letter between the Company and GEM Advisers, Inc. signed May 15, 1997. (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on May 22, 1997).
 - 10.42 Business Express Agreement between the Company and 1217909 Ontario Inc. dated May 20, 1997. (Incorporated by reference to Exhibit 10.2 to Form 8-K filed on May 22, 1997).
 - 10.43 H. Brock Kolls Common Stock Option Certificate dated as of June 9, 1997. (Incorporated by reference to Exhibit 10.43 to Form SB-2 Registration Statement No. 333-30853).
 - 10.44 Stephen Herbert Common Stock Option Certificate dated as of June 9, 1997. (Incorporated by reference to Exhibit 10.44 to Form SB-2 Registration Statement No. 333-30853).
 - 10.45 Keith Sterling Common Stock Option Certificate dated as of June 9, 1997. (Incorporated by reference to Exhibit 10.45 to Form SB-2 Registration Statement No. 333-30853).
 - 10.46 Michael Feeney Common Stock Option Certificate dated as of June 9, 1997. (Incorporated by reference to Exhibit 10.46 to Form SB-2 Registration Statement No. 333-30853).
 - 10.47 Joint Venture Agreement dated September 24, 1997 between the Company and Mail Boxes Etc. (Incorporated by reference to Exhibit 10.47 to Form 10-KSB filed on September 25, 1997).
 - **23.1 Consent of Ernst & Young LLP, Independent Auditors
 - 23.2 Consent of Lurio & Associates (included in Exhibit 5.1)
- - - - -
 ** Filed herewith

Item 28. Undertakings.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high and of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

Provided, however, that paragraphs (1)(i) and (1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in

the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

For purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing Form SB-2 and has duly caused this Post-Effective Amendment No. 5 to Registration Statement on Form SB-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in Wayne, Pennsylvania, on October 7, 1997.

USA TECHNOLOGIES, INC.

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

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

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been duly signed below by the following persons in the capacities and dates indicated.

Signatures -----	Title -----	Date -----
/s/ George R. Jensen, Jr. ----- George R. Jensen, Jr.	Chairman of the Board, President and Chief Executive Officer (Principal and Chief Executive Officer)	October 7, 1997
/s/ Leland P. Maxwell ----- Leland P. Maxwell	Vice President, Chief Financial Officer, Treasurer (Principal Accounting Officer)	October 7, 1997
/s/ Stephen P. Herbert ----- Stephen P. Herbert	Vice President, Director	October 7, 1997
/s/ Keith L. Sterling ----- Keith L. Sterling	Vice President, Director	October 7, 1997
/s/ William W. Sellers ----- William W. Sellers	Director	October 7, 1997
/s/ Peter G. Kapourellos ----- Peter G. Kapourellos	Director	October 7, 1997
/S/ Henry B. duPont Smith ----- Henry B. duPont Smith	Director	October 7, 1997
----- William L. Van Alen, Jr.	Director	October __, 1997

EXHIBIT INDEX

Exhibit Number -----	Description -----
23.1	Consent of Independent Auditors

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our reports dated August 14, 1997, in the Post-Effective Amendment No. 5 to the Registration Statement (Form SB-2 No. 33-98808) and related Prospectus of USA Technologies, Inc. dated October 7, 1997.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
October 7, 1997