PARTICIPANTS

Corporate Participants

Veronica Rosa – Vice President-Communication & Investor Relations, USA Technologies, Inc.
Stephen P. Herbert – Chairman & Chief Executive Officer, USA Technologies, Inc.
David M. DeMedio – Chief Financial Officer, USA Technologies, Inc.

Other Participants

Mike Latimore – Analyst, Northland Securities, Inc.
Hamed Khorsand – Founder, President & Chief Compliance Officer, BWS Financial, Inc.
Harold Wenger Jr. – Senior Vice President - Investment Officer, Wells Fargo

MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to USA Technologies Third Quarter Fiscal 2013 Earnings Conference Call. Today's conference call is being recorded.

At this time, I would like to turn the call over to Veronica Rosa, Vice President of Investor Relations. Please go ahead.

Veronica Rosa, Vice President-Communication & Investor Relations

Good day and welcome to USA Technologies Third Quarter Fiscal 2013 Earnings Conference Call. Today's conference call is being recorded. At this time, I would like to turn the call over to – thank you and good morning.

Before beginning today's call, I would like to remind our listeners that all statements other than statements of historical facts included in this call are forward-looking statements. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, included but not limited to, business, financial market and economic conditions. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in our filings with the Securities and Exchange Commission including our most recent Annual Report on Form 10-K and the Form 10-Q reports for the quarter ended December 31, 2012.

USA Technologies' financial results for the quarter and nine months ended March 31, 2013 will be reported in USA Technologies' Form 10-Q that we intend to file with the Securities and Exchange Commission by its due date. Listeners are cautioned not to place undue reliance on any such forward-looking statements which reflect management's view only as of the date they are made. USA Technologies undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

This call will also include a discussion of certain non-GAAP financial measures that we believe are useful for understanding our ongoing operations. These non-GAAP financial measures are supplemental to and not a substitute for GAAP financial measures such as net income or loss. Details of these items and a reconciliation of these non-GAAP financial measures to GAAP financial measures can be found in our press release issued this morning and on the Investor Relations page of our website www.usatech.com.

On our call this morning are Stephen Herbert, Chairman and Chief Executive Officer; and Dave DeMedio, Chief Financial Officer. Steve will begin our discussion this morning with an overview of the quarter's results relative to our longer term objectives, and then Dave will go through the financial highlights in more detail. Steve will then wrap up with some short closing comments before opening the call for questions.

At this point, I'd like to introduce Steve Herbert, Chairman and CEO of USA Technologies. Please go ahead, Steve.

Stephen P. Herbert, Chairman & Chief Executive Officer

Thank you, Ronnie, and good morning, everyone. Thanks for joining us. Highlights of our third quarter of fiscal 2013 include great progress with expanding our product and services portfolios, very promising industry indicators relative to adoptions, most importantly a continuation of our strong positive trajectory relative to our financial transition from little over a year ago. For example, we're very proud to the fact that we've expanded operating income by 155% and operating margins by over 12% points since the third quarter of fiscal 2012, from a negative operating margin of 8.5% in the third quarter of fiscal 2012 to a positive 4% in the third quarter of fiscal year 2013. From an overall perspective, we believe we're continuing to make significant progress and we have a number of initiatives under way to build upon that progress.

Revenues for the third quarter came in at $9 million, up 19% from third quarter a year ago, with license and transaction fees specifically, our recurring revenues from our ePort Connect service delivering a record 84% of our total revenue mix this quarter. Gross profit in our second fiscal quarter grew by 32% year-over-year coming in at combined 41% gross margin and non-GAAP net income was $293,000 as opposed to a non-GAAP net loss of $634,000 for the same period last fiscal year.

Net new connections to our ePort Connect service of 10,000 for the quarter were not what we expected. We would have liked that figure to be higher. However, we finalized new agreements a bit later than anticipated and as such expect to realize the benefit of those agreements in Q4 and Q1. This includes our recently announced agreement with Isis as well as some promising work which is expected to drive further penetration into self-served retail markets outside of vending, where the company already has presence.

For example, in April, we entered into an exclusive agreement with a new customer and an important strategic vertical for us, commercial laundry. This particular customer has its only cashless payment hardware platform for the laundry industry which would now exclusively utilize USAT's ePort Connect services. We've also agreed to exclusively use this customer's hardware platform in the laundry market during the term of the agreement, other than with our current customers. We anticipate that the initial connections to our service should be several thousand.

In addition, the agreement also includes non-binding targets for the customer and USAT to achieve the substantial number of connections to our ePort Connect service during the three-year term of the agreement. We expect to be able to provide additional details regarding this important new agreement sometime in June. This is a great example of work going on behind the scenes as well as work with Isis and others, all strategic steps that present great opportunity for USAT longer term. In this type of emerging market, there are no establish trends and we would definitely like to reach the point where deployment – where the deployment and adoption cycle is both more rapid and predictable. But I'm encouraged by what I've been hearing.

Over the last year in my opinion, the conversion has shifted dramatically. Cashless payment is being viewed more as a business essential in unattended retail. It's no longer about if but when. In fact, one of our large customer visiting us in Malvern a few weeks ago, refer to cashless as "a blocking and tackling part of their business from this point forward." That view is syncs with other customers who tell us they recognize that cashless is either essential or eminent, but some are constraint in term of timing and resources they have to dedicate to cashless deployment.

As such, one of our challenges is to do everything we can to encourage them to make it a priority, including assertively leveraging the data, which clearly demonstrates the returns that cashless platform can generate for them and assisting them in any way we can with their deployment strategies. Competition will certainly effect market dynamics as things continue to progress. However, our customer feedback right now continues to be about time, resources and data, particularly data about cashless ROI and consumer trends.

Our 2013 knowledge base unveiled in the press release earlier this week, specifically reveal such important information to our customers. It presents some compelling historical data that we believe demonstrates how our cashless payment platform can be instrumental in driving additional revenues. For example, in a sample of 10,000 vending terminals studied over a period of 12 months following cashless deployment, we saw a meaningful increase in average monthly cash, as well as cashless revenues of 16% and 79%, respectively, for a combined 28% increase. Average monthly transactions at the end of the same 12-month period were up 23%.

In a broader data study of 62,000 locations, we saw cashless usage averaging 32% over a three-month period and as high as 44% as product price points increased to approximately $3. That's valuable information to a business operator in terms of leveraging cashless to drive better returns for their enterprise.

I encourage you to read that press release. It also includes a link to NAMA OneShow wrap up from the Editor of Automatic Merchandiser, a blog post appropriately titled, A Point of No Return. In her blog, Ms. Refermat says, there was a time not long ago that technology in this industry was just for the front runners or large businesses. But now it's become a necessity for many more operations. She went on further to say, as operator see themselves using cashless payments in retail environments and their kids never carry cash, they've began installing card readers and preparing for the day that mobile is the primary payment format.

Further, in an article published by NFC Times recently, we also heard an important public statement relative to Coke's corporately-owned bottler, Coca-Cola Refreshments or CCR, their plan for cashless adoption and related importance of loyalty programs. The article indicates that CCR which operate – which we believe operates approximately 300,000 vending machines will expand it acceptance of cards to tenths of thousands of more vending machines in the U.S. this year. And that once you put a machine online, the possibilities for marketers are pretty much endless. That link is in our knowledge base as well.

And I was around when the market transition to the dollar bill validator and I believe the influence of the major brands at that time was a key indicator to others in the industry, once the major brands become more aggressive with their adoption of that particular new offering. With some background here, through independent Coke bottlers CCR, as well as independent vending operators. We believe USAT's ePort Connect service currently delivers cashless capability to more Coke branded vending machines than anyone else's network in the industry. So as you might image, we find these types of statement to be encouraging and believe they bode well for not only the adoption of cashless in self-serve retail, but they bode well for USAT.

In general, it's becoming increasingly evident that the dialog has changed, cashless is becoming more than just a choice of our payment platform rather we believe its quickly evolving to a discussion about investing in a technology infrastructure that enables a myriad of business opportunities, from mobile payment to promotional opportunities to product optimization, all landed improving business results in the self-serve retail market. That's one of the reasons why this year we were excited to be at the Electronic Transactions Association or ETA show last week. This was the first time, USAT has had an opportunity to showcase the breadth of our ePort Connect services and what we view is our unique approach to serving the needs of the emerging small ticket unattended market at a major event for the mainstream payment industry.

There are host of largely cash-based businesses like amusement, gaming, laundry, car wash, kiosks and vending that are still in the early stages of cashless transition, and are seeing as purely increment blue-ocean-type opportunities by the key stakeholders in the mainstream payment industry. So, we believe this significant opportunity to sync up with some of these companies at this point in the development and emergence of our target markets, initiated with a great platform to showcase our comprehensive service capabilities to that audience. Our overall approach to driving maximum shareholder value has consistently been about two things, driving the number of connections to our ePort Connect service by leveraging our existing customer base, developing new distribution channels, and continuing to drive penetration into vertical markets beyond traditional vending.

Additionally, delivering more value to every connection through expanded services and unmatched customer service is a key priority. We aligned our strategic objectives for fiscal 2013 to these – to those two directives and we've made some great progress year-to-date. Going into the fourth quarter, our approach to driving connections will continue to focus on pure fundamentals, solely intended to stimulate the rate of adoption. We have a lot more in our arsenal then we did at this time last year. Our expanded services around consumer engagement, the recently announced Isis agreement and we are enhancing our marketing and sales approach for better focus on demonstrating cashless ROI to our customers through powerful data and consultative service.

We've also stepped up our sales and marketing resources with more national account coverage focused product specific coverage and additional telemarketing resources based upon the successes and increased volume we've experienced in the SMB market. As I mentioned earlier, we are also in the process of rolling out our new consumer engagement services. Our new loyalty and prepaid program will give operators the ability to increase sales and consumer participation at their locations with cash back rewards on purchases, exclusive offers, promotions and product information. In a market where it's tough to differentiate one company from another, we believe our customers are viewing these new capabilities a strategic tool for winning new business, account retention, connecting with their consumers, who were previously anonymous to them and now to be able to build loyalty around their own brand. In fact, since NAMA just two weeks ago, we've already – we already have several orders in process.

Capitalizing on the trend and mobile payment has been a consistent theme for USAT. Our work with Isis comes on the heel of our successful mobile payment soft launch devices in their launch market of Salt Lake City and Austin. We announced with Isis what we believe is the largest, quite possibly the first ever nation-wide loyalty program in vending and self-serve retail. We believe this unprecedented program is a testament to our appeal as an industry leading service partner and to the value of our expanding network of contactless NFC enabled locations. Simply put, the agreement essentially gives any of our customers nationwide the ability to participate in the Isis Mobile Wallet payment and loyalty rewards program, provided that their locations are equipped with NFC-enabled devices.

Consumers using the Isis Mobile Wallet will receive their fifth vend or purchase free and our operators are essentially reimbursed with that free vend. It's win-win for everyone generating significant interest and excitement in the industry. And finally, it's yet another incentive in my opinion for operators to begin to think about the scale of their cashless deployments. We are also continuing to make headway in terms of our focus on new vertical markets, kiosk, laundry, car wash, amusement, and gaming and others that we estimate represent nearly $120 billion market opportunity comprised of millions of potential point-of-sale locations. Our largest customer in this area so far AMI Entertainment has indicated that Q4 demand should be stronger than it has been in the last two quarters, that's encouraging. In addition, during the third quarter, we expanded our distribution capabilities into $4 billion to $5 billion amusement and gaming market by entering into an agreement with Betson Enterprises, a large national distributor for that market. We view this as a promising vertical market for our products and services.

We are off to a good start as we placed several 100 units as a result of this relationship already and we just closed another 500 unit deal. So, we are seeing some encouraging momentum there as well. The commercial laundry market is yet another important self-serve retail vertical for USAT. It's another sizable market opportunity and our new agreement positions us firmly to further penetrate that market as we strive to add additional connections over the next three years. We are looking forward to reporting on that new relationship in more detail in the fourth quarter.

Last but certainly not least, our ePort G9 is designed to improve ROI even more, with a lower cost for our customers who want to purchase the device and for USAT, a lower capital requirement for our JumpStart program. Outside of our new G9 and G10, which will be available late Q1, all of these sales and marketing efforts are designed to help us achieve our financial targets for fiscal 2013, which we set out in September of last year as part of our Q4 fiscal 2012 earnings call. At that time, we set a target of non-GAAP net income by our second quarter and we met that goal. We stated that we would have positive non-GAAP income for the year which we now believe should be in the $1 million range for fiscal 2013. Hitting that target would reflect a $4.8 million improvement from a non-GAAP loss of $3.8 million in fiscal 2012. We established a gross margin target in the 40% range from 34% in fiscal 2012 and we expect to hold that. We set a target for cash generated from operations of approximately $4 million to $5 million, up from $78,000 in fiscal 2012 and we are still good with that range.

Net new connections were set at 60,000 for fiscal 2013 and believe me we are doing all we can to hit that target. That said, consistent patterns in terms of adoption is not a luxury we have in this industry, there are no historic. At this point, we think connections could be in the 52,000 to 60,000 range. As of March 31, we added 32,000 new connections year-to-date with 196,000 total connections to our ePort Connect service. As I said earlier, we anticipate several thousand from our new customer in the commercial laundry sector and we'll need a very strong fourth quarter from other areas to deliver. Can we do it? We've delivered some big numbers in our fourth quarter in the past; 16,000 in Q4 of fiscal 2012 and 21,000 in Q2 of fiscal 2011. Since 84% of our revenues are recurring, the revise connection range of 52,000 to 60,000, our revenue goal of $38 million or 30% growth translates to roughly $36 million to $38 million, or 24% to 30% growth for fiscal 2012. As you go down this list, the strength of our business model really shines through. We are adding value with every connection over time, which adds further stability to the model and to the business.

In addition, our customer base, now 4,525 strong, operates approximately 2 million locations in the self-serve retail market. And with adoption in its early stages, we still continued to believe that this phase will be a valuable asset as we strive to grow the business. Some of that momentum is beginning to translate to smaller high-margin customers, as evidenced by a customer account that stood at 59% growth year-over-year. We have a great deal of work underway, many new agreements, programs and new product initiatives to execute in the months ahead. We are working aggressively to achieve our near-term targets. We have come a long way, as we have delivered against the number of key milestones as a company over the last year. Going forward, we have positive trends, grading tools for our customers and a business model that's sound and demonstrating scale.

Now, I'm going to turn the call over to Dave DeMedio, our CFO for review of the financial results.

David M. DeMedio, Chief Financial Officer

Thank you, Steve.

Revenues of $9 million for the third quarter of fiscal 2013 increased 19% compared to the same period a year ago. Equipment sales, which include sales of our ePort device, activation fees on ePorts either sold or deployed under JumpStart and EnergyMiser product sales came in at $1.4 million, down 8% from Q3 a year ago. ePort-related equipment sales grew in the quarter, offset by decline in EnergyMiser product sales versus the third quarter of fiscal 2012.

Sales of our EnergyMiser product represented slightly lower than 4% of total Q3 revenues. License and transaction fees, which are driven by monthly fees and transaction dollars processed from connections to our ePort Connect service came in at $7.6 million, a 26% increase from $6 million a year ago. The growth in license and transaction fees this quarter was impacted by two items, grace periods for the initial billing and monthly fees and a higher level of service fee credits in the quarter. In terms of the grace period, our standard customer pays the monthly ePort Connect service fee and a blended transaction processing fee on cashless transactions handled by USAT.

New connections typically take about 30 to 60 days to begin contributing to license and transaction fee revenues. In the second and third quarter, a higher mix of customers received extended grace periods, as certain operators expressed that the time factor and deploying cash was currently a challenge for them. We estimate the quarter's license and transaction fees would have been approximately $300,000 higher, if not to these two events. For the fourth quarter, license and transaction fee revenue growth should be more in line with sequential growth, as one would expect to see from the added connections. Total connections to our ePort Connect service grew to 196,000 as of March 31, up 32% from 148,000 as of March 31, 2012.

Net new connections in the quarter totaled 10,000, 17% less than compared to 12,000 for the same period last year. ePort devices whether through JumpStart or regular sales represented about 92% of net new connections in the quarter with SDK software and our new ePort Mobile devices making up the remaining 8%, of which most of those connections are still from our major customer in that area, AMI Entertainment. Transaction dollars handled during the quarter totaled $55 million, up 29% from Q3 a year ago. Gross profit of $3.7 million improved from $2.8 million in Q3 of fiscal year 2012 on gross profit margins of 41% and 37% respectively. This 84% of our revenues are now from license and transaction fees, the 40% plus gross margins on that line item normalizes the quarter-to-quarter changes in gross margins from equipment sales and activation fees.

Any significant change in gross margin going forward would likely come from greater scale and reductions in transaction processing and wireless service costs, or a material change in the connection mix between sales and JumpStart. Operating expenses of $3.3 million were down from the prior year, but up slightly from last quarter as we begin to make additional investments in selling and marketing activities. Operating margin for the third quarter came in at 3.9% on both the GAAP and non-GAAP basis. For the full fiscal year, operating margin percent should stay in this range, as higher revenues in Q4 will be offset by additional sales and marketing resources.

The second consecutive quarter of non-GAAP net income also demonstrates in our view, the sustainable nature of a recurring revenue business model. Non-GAAP net income was $293,000 for Q3 compared to non-GAAP net loss of $634,000 for the same period last year. This quarter's non-GAAP net income was a little less compared to non-GAAP net income of $567,000 last quarter, but our goal has been to maintain non-GAAP profitability, while continuing to invest in marketing sales and other resources necessary to drive [ph] in this tight (28:40) growth, in this emerging market. Because of multiple factors that go into the accounting for fair value warrants, one of which is the appreciation in our stock price during the March 31 quarter. The adjustments for fair value of warrants was extremely large this quarter, an expensive $1.3 million compared to almost $100,000 of other income in the year ago quarter. That took us on a GAAP basis to a net loss of $1 million compared to a GAAP net loss of $539,000 in Q3 of fiscal 2012.

So in the near term, we will continue to use a non-GAAP measure to remove significant non-operational adjustments for a statement of operations, as we think this allows for a better view of our progress and our potential. As a reminder, our non-GAAP reconciliations can be found in the Investor Relations section of our website, www.usatech.com with the other third quarter information. Adjusted EBITDA is another non-GAAP measure we've used to help track operational progress from a cash perspective. Adjusted EBITDA for the third quarter was $1.7 million compared to just $336,000 in Q3 of fiscal 2012, the quarter when we first crossed over into positive territory for this measure.

Turning to cash, cash stood at approximately $4 million as of March 31, down from $6.4 million at the beginning of the fiscal year, as we used cash to fund growth, particularly driving connections to our service fees JumpStart. Our funding plans for the fiscal year call for us to fund our growth to cash on hand, cash generated from operations and our credit line. Our largest capital requirement is obviously JumpStart, which is our terminal included service program. For the third quarter, cash used from operations was $217,000, largely as a result of the timing of receivables related to transaction dollars due from our processor. On a fiscal year-to-date basis, we have generated cash from operations at $2.4 million compared to cash used in operations of $2.8 million for the same nine months period in fiscal 2012, over a $5 million improvement in cash flow from operations.

Stronger operational performances has been the biggest driver of that change, offset in part by working capital changes, netting to a use of $1.7 million for the first nine months of fiscal 2013. And a larger portion is that working capital change related to paying down a substantial portion of last year's proxy expenses in this fiscal year. Today, we have used approximately $6.3 million in a JumpStart program. For the fiscal year, JumpStart has contributed to about 81% of our connections and 89% in our third quarter. For the full fiscal – fiscal year, we thought this might decrease a bit, as we obtain more connections via our SDK or Quick Connect offerings. But similar to what occurred in Q2, make those connections remain on ePort devices this quarter and JumpStart which remained a poplar offering.

In the fourth quarter, we are accounting on several thousand additional connections to a new customer that will not require JumpStart. Also, we are definitely counting on higher mix of device sales than the approximate 10% rate we've been averaging in the last few quarters, hopefully, as high as 30%. As we look at our needs for the remainder of the fiscal year, we feel comfortable with our funding resources, particularly due to our improved financial performance, we were able to renew and expand our credit line with Avidbank enabled to $5 million, which in combination with cash generated from operations should be sufficient on their growth needs. Credit line stood at $2 million as of March 31.

For recap of our guidance for the full fiscal year and based upon the assumptions, I just stated, we're targeting non-GAAP net income for fiscal 2013 of approximately $1 million. Cash generated from operations within the range of $4 million to $5 million. Gross profit margin should remain in the 40% range. We are now expecting net new connections in the range of $52,000 to $60,000 and that will drive revenue growth of 24% to 30% compared to last year or approximately $36 million to $38 million of revenues for fiscal 2013.

With that, and I'll now turn the call back over to Steve.

Stephen P. Herbert, Chairman & Chief Executive Officer

Thank you, David.

David M. DeMedio, Chief Financial Officer

Sure.

Stephen P. Herbert, Chairman & Chief Executive Officer

And thank all of you again for joining us here today and for being a part of the USAT family. I hope you've been able to get our feel for the progress we've made and the many things we have under way that we believe will continue to create value for USAT, its customers and shareholders. We're looking forward to reporting back to you soon, closing this fiscal year with great momentum and setting the stage for we believe should be even more exciting fiscal 2014.

At this point, we're happy to take any questions. Operator, can you please open the call and provide instructions for our Q&A session. Thank you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Mike Latimore from Northland Capital. Your line is open.

<Q – Mike Latimore – Northland Securities, Inc.>: Good morning.

<A – Dave DeMedio – USA Technologies, Inc.>: Good morning.

<Q – Mike Latimore – Northland Securities, Inc.>: Just – so just talking a little bit about the fourth quarter guidance. So, I guess, I think, Dave, you said maybe it's 30% roughly of connections maybe coming from hardware. I guess, can you talk a little bit about your visibility into that, how do you motivate the customers to buy? I think they've historically been pretty receptive to the JumpStart program.

<A – Dave DeMedio – USA Technologies, Inc.>: Mike, they have been very receptive to the JumpStart program. We have a new distribution agreement, one we have a new distribution agreement with Betson in the amusement and gaming industry and for the most part, sales through that channel are going to be more purchases we believe than JumpStart. That will help as well as some new programs that we have in the marketplace right now that won't send people to purchase the equipment. So we're hoping those two things will help spur an increase in purchases.

<Q – Mike Latimore – Northland Securities, Inc.>: Okay. And how should we think about, I guess, the gross margin on hardware there? Any change in the fourth quarter around some of these programs?

<A – Dave DeMedio – USA Technologies, Inc.>: Well, just from a perspective of hardware sales, some of the incentives are going to probably work to reduce margins, but as you know, activation fees help increase margin. Then certainly with the increased amount of connections we're expecting for the quarter, you might not see an impact in equipment margins for the quarter, because anything that could be reduced might be picked up by the activation fees. Is that your follow on that Mike?

<Q – Mike Latimore – Northland Securities, Inc.>: Yeah.

<A – Dave DeMedio – USA Technologies, Inc.>: Okay, good.

<Q – Mike Latimore – Northland Securities, Inc.>: And then, I guess, the view is sort of 20,000 to, I think, 28,000 connections potential in the fourth quarter, I guess just how – what percent do you think might come out of the vending industry from that group?

<A – Steve Herbert – USA Technologies, Inc.>: Well, typically, Mike, it's somewhere north – it's somewhere in the neighborhood of 80%. However, we are anticipating, we're actually experiencing more activity in some – as I mentioned and I think David mentioned as well, we are expecting more activity from Betson on the amusement and entertainment side, more activity from AMI in addition to potentially some activity from that new customer in the laundry vertical. So it could be, and this is – yeah, it's pure speculation on my part, but it could be that we actually see a lower mix come from vending in the fourth quarter just because of those other activities.

<Q – Mike Latimore – Northland Securities, Inc.>: All right. Got it. Okay. And then can you talk just a little bit about linearity throughout fourth quarters, maybe there's not a normal fourth quarter, but linearity in terms of number of connections added by month? What's the typical linearity in a quarter, particularly fourth quarter, and are you kind of tracking to that kind of linearity, how does that tie into that sort of thing?

<A – Steve Herbert – USA Technologies, Inc.>: Right. Well, as I mentioned in my note, we really wish that the movement was a little bit more predictable. It's tough, but what I can – so month-to-month is really tough to talk about, but what I feel confidence saying and, Dave, please correct me if I'm wrong, we on many occasions have closed the year in a strong fashion. We've had strong fourth quarters. I am relatively pleased regarding this quarter with the way that it started. So I hope that helps.

<Q – Mike Latimore – Northland Securities, Inc.>: Yes. Great. And [indiscernible] (39:14) congratulations on the financial turnaround this year.

<A – Steve Herbert – USA Technologies, Inc.>: Thank you very much. That means a lot.

<Q – Mike Latimore – Northland Securities, Inc.>: All right. Thank you.

Operator: Thank you. Our next question is from Hamed Khorsand from BWS Financial. Your line is open.

<Q – Hamed Khorsand – BWS Financial, Inc.>: Hi, guys. Could you talk about the comment that you made earlier about the grace period being longer; I mean what kind of credit risk if any are you taking on that and – yeah, could you just talk about that a little bit?

<A – Dave DeMedio – USA Technologies, Inc.>: Sure. Hamed, this is David DeMedio. From a grace period perspective, it's just really – it's simple as allowing the customer a little more time to install the unit into a location prior to us charging the fee. Typically, a unit starts charging a fee 30 to 60 days after the connection.

<Q – Hamed Khorsand – BWS Financial, Inc.>: But yeah, you were talking about customers saying that it's a challenge for them to pay that fee because they're incorporating it into the program and so forth. So it seems like the credit worthiness of some of these customers isn't that great and that's what I'm trying to ask here.

<A – Steve Herbert – USA Technologies, Inc.>: It's – Hamed, it's Steve Herbert here. I'll just try to help if I can. If you recall in the comments that I made, the – one of the things that our customers continue to struggle with is the fact that they operate very lean and they have a time and resource issue and sometimes they just need – some of them need a little more time to get those devices out and in some cases, we'll give them say, an extra 30 days while we also try to advise them on better ways to deploy.

<A – Dave DeMedio – USA Technologies, Inc.>: And probably, just I'll follow-up too from a credit risk perspective. One of the nice things about our business model is the waterfall of cash. The cash comes through USAT's network prior to going to our customers. So we can easily take out of those funds what's due to USAT. So we try to keep – I believe credit risk is at a minimum.

<Q – Hamed Khorsand – BWS Financial, Inc.>: All right. And then, Steve, what you're seeing now in the business and what's happened over the last three quarters, what were you expecting at the beginning of the fiscal year that really didn't or really hasn't happened the same pathway that you said we would have 60,000 connections.

<A – Steve Herbert – USA Technologies, Inc.>: Well, I think as we stated, [ph] as we go next (42:15) we provided that guidance, I guess, back in September, right. And said, this is what we think the fiscal year will look like. Keep in mind that we gave that guidance in a market where we said, it really is very hard to predict and we've met a lot, in fact most of the metrics that we put forth. All of that said, on the connections front, the things that have unfolded, particularly of late is that several important agreements and in particular Isis as well as the one in commercial laundry really took longer than we expected and that will, obviously rollover into the fourth quarter and next fiscal year.

<A – Dave DeMedio – USA Technologies, Inc.>: Okay. Great.

<A – Steve Herbert – USA Technologies, Inc.>: Everything else in my mind has unfolded the way we expected. Dave, would you agree?

<A – Dave DeMedio – USA Technologies, Inc.>: Yeah. I would agree.

<Q – Hamed Khorsand – BWS Financial, Inc.>: Okay. Thank you.

<A – Steve Herbert – USA Technologies, Inc.>: Thank you.

Operator: Our next question is from [ph] Antony Bonavito from Interlink Resources (43:32). Your line is open.

<Q>: Good morning. So, could you elaborate a little bit more about your plans for your ePort mobile service. There's been a lot written about this type of service recently and it looks like it could potentially be pretty big for yourself. And I would like to hear what your thoughts are on that?

<A – Steve Herbert – USA Technologies, Inc.>: Sure. Yeah, that's a great question. The ePort mobile product for customers to accept mobile payment is really focused from our perspective, there are a number of companies in this space, but what we're really focused on as a company is business-to-business type applications, and in particular in our customer base, our starting point of our 4,525 customers, many of those customers and I think we talked about this on our last conference call, many of these customers in addition to servicing your [ph] sales at (44:40) retail locations, have staff who are running around all day, everyday delivering goods and services for which they need to accept payment. These customers right now are on net 30, they're collecting cash, they're collecting checks. So what I'm trying to say is, we have a built-in customer base who needs this type of solution and it's very natural that they get it from us.

One of the other things that we've done as a company is, as we studied the market and we talked to customers and potential customers, we found that they don't necessarily, particularly businesses, remember we're targeting businesses, not sole proprietorships, personal trainers, individuals, et cetera. We're targeting businesses, they don't really want employees running transactions through their personal funds. So we put together with our friends at Verizon an all-in-one package with a low-priced mobile device and a reader included. such that they can hand off a turnkey device to their employees and let them collect payment on their routes. And the device is only enabled for those transactions that has no other functionality. So there is a very low cost to have it on the service. And we think that is going to be well received and something that at least for a time will set us apart from all the other players in the space. But we do, I agree with you, I think this can be a real sleeper for USAT.

<Q>: Do you see it expanding in beyond that at some point in time?

<A – Steve Herbert – USA Technologies, Inc.>: We will – we've looked at other – we've looked beyond our customer base into specific markets that we're interested in, things like home services, contractors and things like that. So we'll very much take a rifle shot approach to the market as opposed to a broad approach. And it's highly unlikely, like for instance, someone like Square, it's highly unlikely that we will target consumers in general or individual business people. So we will expand, but it will be selectively and very methodically.

<Q>: All right. Thank you very much.

<A – Steve Herbert – USA Technologies, Inc.>: Sure.

Operator: Thank you [Operator Instructions] We have a follow-up from Mike Latimore from Northland Capital. Your line is open.

<Q – Mike Latimore – Northland Securities, Inc.>: Thanks. I might have missed this, but did you say how many employees you had at quarter end and then maybe what kind of additions you expect over the next few quarters?

<A – Dave DeMedio – USA Technologies, Inc.>: Mike, we haven't put out that disclosure. We have somewhere around 50, a little over 50 employees at the moment. I believe we added during the quarter three new resources or three new personnel in the sales and marketing function. In terms of where we're going to end the quarter, I think we may add one, possibly two more, but we'll probably be in the mid-50 range in terms of total employees.

<Q – Mike Latimore – Northland Securities, Inc.>: Okay. Thanks.

Operator: Thank you. Our next question is from Harold Wenger from Wells Fargo. Your line is open.

<Q – Harold Wenger – Wells Fargo>: Hi, guys. How are you doing? Hello, can you hear me?

<A – Steve Herbert – USA Technologies, Inc.>: Yes.

<A – Dave DeMedio – USA Technologies, Inc.>: Sure.

<Q – Harold Wenger – Wells Fargo>: Yes. Hi. Steve, in regards to what you said, you're looking for 50,000, 60,000 increased number. How would you say that would – what type of increase in margins overall should that start to benefit us by talking about increasing the numbers by 20%, 30% that should have a positive impact on our margins based on our fixed cost. How much improvement can we see on that?

<A – Dave DeMedio – USA Technologies, Inc.>: Harold, this is David. In terms of margins, one of our largest expense in terms of the monthly fee is our wireless service cost. And we do have incentives built into our wireless agreement. With some more data that we send over the network, the more benefit we get from those machines. However, in terms of 20,000 units, I don't think it's going to be a material impact to margins. Certainly though, as you scale out to beyond 20,000 to items – to numbers like...

<Q – Harold Wenger – Wells Fargo>: Well, this is what we're talking about here, big companies talking about 50,000 to 60,000 new connections, right?

<A – Dave DeMedio – USA Technologies, Inc.>: Yes, and we've seen margin expansion, Harold, over the past year from 34,000 up to [ph] 40,000 (49:49).

<Q – Harold Wenger – Wells Fargo>: Right, I understand that, and that's fine. I am trying to understand, where are we – where is going to be the sweet spot and we're going to finally start to get the lion's share of the incremental profits based on additional customer base growing to the level properly. At some point, we should start having a lot more grain coming in. Where do you think that's going to...

<A – Dave DeMedio – USA Technologies, Inc.>: Well, I think there is more scale on our operating margins, and we've been able to keep up our operating expenses relatively flat, although we have brought in some resources in Q3.

<Q – Harold Wenger – Wells Fargo>: Yes. Okay.

<A – Dave DeMedio – USA Technologies, Inc.>: So there is definitely scale in our operating margins and we demonstrated that and we'll continue to demonstrate that as we move forward by adding connections.

<Q – Harold Wenger – Wells Fargo>: I understand that. I'm just trying to get some kind of a, if you can give me some type of an idea of – at what kind of numbers [ph] that we are going to get to (50:43) at some point, hopefully we are going to have [ph] enough scale that's going to start going to (50:45). We are going to catch it, we are going to start making a lot more money based on above our – for being above our fixed cost line substantially and that's the idea. So I am just trying to figure out it little bit, get us some handle on where is that insight from where we are now?

<A – Dave DeMedio – USA Technologies, Inc.>: Howard, I think one thing that we're going to circle back on, and one thing that Steve said early on, is we're going to provide our investors visibility and we're not on the call today to talk about forward-looking in terms of next fiscal year and beyond, but we will be back, I'm sure probably on the next call to give some guidance into what next fiscal year might look like.

<Q – Harold Wenger – Wells Fargo>: I'm not really looking at a timeframe, I'm trying to get an idea of what you guys are guesstimating, based on your old work you've done till now at what point based on X number, 250,000, 300,000 connections, we're going to start to make some real money, because once you are past way your fixed cost stuff right, the profitability is going to start to increase substantially, should it not?

<A – Ronnie Rosa – USA Technologies, Inc.>: Harold, this is a longer conversation and I'm happy to take your call after this, so we can talk through this at length.

<Q – Harold Wenger – Wells Fargo>: Okay.

<A – Ronnie Rosa – USA Technologies, Inc.>: I think my number is on the – right on the press release, so I'm happy to do that with you.

<Q – Harold Wenger – Wells Fargo>: Okay.

<A – Ronnie Rosa – USA Technologies, Inc.>: Operator, could we go to the next call, next question please?

Operator: Thank you. Our next question is from Doug Blauw from William Blair. Your line is open.

<Q>: Steve and Dave, this is [indiscernible] (52:19) actually. I have a question for you in regard to some of the growth drivers, we are all focused on the number of connections, but as the enhanced product services roll out, is this just an enhancement to the value bundle or could this also drive increased revenue per user?

<A – Steve Herbert – USA Technologies, Inc.>: [ph] Doug (52:44), that's a great question. And the – there are couple of things, first of all, it's – it definitely by the customer is perceived in all of our discussions at NAMA where the services were extremely well received, there is a very high perceived value of the bundle, if you will, very high perceived value. And I would be very happy personally, this is just Steve Herbert, I'd be very happy in the early days if that simply encourages these folks to move faster because they see even more value in addition to the increased sales and revenues that we talk about with them, they see additional value in loyalty, like customer retention, strategic advantage in winning accounts, et cetera. So if that helps drive new connections for us initially, terrific. Over the longer term, we clearly see it and I always call it the cable model, we clearly see it as a way to drive more revenue per connection for USA. So short term, we are going to leverage this to drive more connections, longer term more revenue for a connection because there is many – we don't have time to talk about it, but there are many things that one can do with things like loyalty programs and some of the things that we're rolling out.

<Q>: Thank you.

<A – Steve Herbert – USA Technologies, Inc.>: Sure. Thanks for the question.

Operator: Thank you. We have no more questions in queue. I'd now like to turn the call over to management for closing remarks.

Veronica Rosa, Vice President-Communication & Investor Relations

That wraps up our call today. If we didn't get to your question, please feel free to call Investor Relations following the call today, and we look forward to talking to you next quarter. Thank you.

Operator: Ladies and gentlemen, this does conclude today's conference. You may now disconnect. Thank you.