

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

COMMISSION FILE NUMBER: _____

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934 [NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM _____ TO _____

USA TECHNOLOGIES, INC.
(Exact name of small business issuer)

PENNSYLVANIA 23-2679963
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

100 DEERFIELD LANE, SUITE 140, MALVERN, PA. 19355
(Address of principal executive offices)(Zip Code)

(610)-989-0340
(Issuer's telephone number)

NONE
(Securities registered under Section 12(b) of the Exchange Act)

COMMON STOCK, NO PAR VALUE
(Securities registered pursuant to Section 12(g) of the Exchange Act)

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

Check if disclosure of delinquent filers pursuant to Item 405, of Regulation S-B
is not contained in this form, and no disclosure will be contained, to the best
of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-KSB or any amendments to
this Form 10-KSB.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT YES NO

Registrant's total revenues for its most recent fiscal year.....\$5,632,815

The Company's voting securities are traded on the Over the Counter (OTC)
Electronic Bulletin Board. The aggregate market value of the voting common
equity securities held by non-affiliates of the Registrant was on \$45,854,655
August 31, 2004 based upon the closing price of the Registrant's Common Stock on
that date.

As of August 31, 2004, there were 352,728,112 outstanding shares of Common
Stock, no par value.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

OVERVIEW

USA Technologies, Inc. ("USAT" or the "Company") was incorporated in the Commonwealth of Pennsylvania in January 1992. The Company offers a suite of networked devices and associated wireless non-cash payment, control/access management, remote monitoring and data reporting services, as well as energy management products. Our networked devices and associated services enable the owners and operators of everyday, stand-alone, distributed assets, such as vending machines, personal computers, copiers, faxes, kiosks and laundry equipment, the ability to remotely monitor, control and report on the results of these distributed assets, as well as the ability to offer their customers alternative cashless payment options. As a result of the acquisition of the assets of Bayview Technology Group, LLC ("Bayview") in July 2003, our Company also manufactures and sells energy management products which reduce the power consumption of various equipment, such as refrigerated vending machines and glass front coolers, thus reducing the energy costs associated with operating this equipment.

Our customers fall into the following categories; vending machine owners and/or operators, business center operators which include hotels and audio visual companies, commercial laundry operators servicing colleges and universities, brand marketers wishing to provide their products or services via kiosks or vending machines and equipment manufacturers such as consumer electronics, appliances, building control systems, factory equipment and computer peripherals that would like to incorporate the technological features of our networked devices (i.e. remote monitoring, reporting and control as well as cashless payments) into their products. Customers for our energy management products also include energy utility companies, schools and operators of glass front coolers.

THE TECHNOLOGY

The Company offers an end-to-end solution for control/access management, remote monitoring, turnkey cashless payment processing and data reporting for distributed assets such as vending machines, office equipment and laundry equipment. This solution consists of a device (thin-client hardware or firmware) that controls the distributed asset, a connectivity medium, and our network that includes server-based software applications for remote monitoring and cashless transaction processing and a central database for web-based reporting of sales, inventory, machine diagnostic and other supply chain data.

THE CLIENT DEVICES

As part of its end-to-end solution, the Company offers its customers several different client devices. These client devices range from software, or dynamic link libraries ("DLLs"), to hardware devices consisting of control boards, magnetic strip card readers, barcode and RFID readers, LCD screen and/or receipt printers. The client device can be embedded inside the host equipment, such as software residing in the central processing unit of a Kiosk; it can be integrated as part of the host equipment, such as our e-Port(TM) hardware that can be attached to the door of a vending machine; or it can be a peripheral, stand-alone terminal, such as our TransAct(TM) terminal for Business Express(R).

e-Port(TM) is the Company's core client device, which is currently being utilized in vending and commercial laundry applications. Our e-Port(TM) product facilitates cashless payments by capturing the payment media and transmitting the information to our network for authorization with the payment authority (e.g. credit card processors). Additional capabilities of our e-Port(TM) consist of control/access management by authorized users, collection of audit information (e.g. product or service sold, date and time of sale and sales amount), diagnostic information of the host equipment, and transmission of this data back to our network for web-based reporting.

TransAct(TM) is the Company's original cashless, transaction-enabling device developed for self-service business center equipment such as PC's, fax machines and copiers. Similar to e-Port(TM), the TransAct(TM) capabilities include control/access management, collection of sales data (e.g. date and time of sale, sales amount and product or service purchased), and transmission back to our network for reporting to customers.

THE NETWORK

USALive(TM) is the network component of our end-to-end solution to which the Company's devices transmit their cashless payment information for processing as well as the valuable sales and diagnostic data for storage and reporting to our customers. Also, the network, through server-based software applications, provides remote management information and enables control of the networked device's functionality.

USALive(TM) is the enabler of turnkey cashless payment processing for our customers. The network is certified with several cashless payment authorities, such as credit card processors and property management systems, facilitating the authorization and settlement of credit cards, debit cards, hotel room keys and student ids. The network can also act as its own payment processing authority for other cashless payment media, such as on-line stored value or employee payroll deduction. The network authorizes transactions, occurring at the host equipment, with the appropriate payment authority and sends approval or decline responses back to the networked device to allow or terminate the transaction for the purchase of the product or service. The network consolidates successfully approved transactions from multiple devices, batches, and then transmits these batched transactions to the payment authority for settlement. By bundling and batching transactions from multiple networked devices and connecting to the appropriate payment authorities through one central dedicated processing medium, it reduces the fees charged by the payment authority.

USALive On-line(TM) is the web based reporting system that customers use to gain access to the valuable business information collected from the networked devices. The website's functionality includes: management of the distributed assets deployed in the field, such as new activations and location redeployments; user-defined reporting for miscellaneous payment types (e.g. cash, credit, etc), date and time product sold, and sales amount; and detailed bank account deposit information, by device, for easier bank reconciliation.

THE CONNECTIVITY MEDIUMS

Connectivity of our client devices (e-Port(TM) and TransAct(TM)) to the USALive(TM) network is another component of the Company's end-to-end solution. The reliable, cost effective transfer of customer's business critical data is paramount to the services we deliver. Due to the importance of connectivity, and realizing that every customer's connectivity needs may be different (e.g. access, or lack thereof, to phone lines, local area networks ("LAN"s), wide area networks ("WAN"s) and wireless data networks), the Company offers multiple connectivity solutions - phone line, Ethernet and wireless.

Increasing wireless connectivity options, coverage and reliability and decreasing costs, over the past few years have allowed us to service a greater number of customer locations, since many of our customer's host equipment, particularly within the vending industry, do not have access to any other communication medium. Additionally, we make it easy for our customers to deploy wireless solutions by being a single point of contact. By aggregating different wireless networks, we ensure our customers have reliable, cost effective nationwide coverage without the hassles of certification and administration of multiple wireless suppliers.

ENERGY MANAGEMENT PRODUCTS

With the acquisition of Bayview in July 2003, our Company offers energy conservation products ("Miser"s) that reduce the power consumption of various types of equipment, such as vending machines, glass front coolers and other "always-on" appliances by allowing the equipment to selectively operate in a power saving mode when the full power mode is not necessary. Each of the Company's Miser products utilizes occupancy sensing technology to determine when the surrounding area is vacant or occupied. The Miser then utilizes occupancy data, room and product temperatures, and an energy saving algorithm to selectively control certain high-energy components (e.g. compressor and fan) to realize power savings over the long-term use of the equipment.

Customers of our VendingMiser(TM) product benefit from reduced energy consumption and costs of up to 46% per machine, depending on regional energy costs, machine type, and utilization of the machine. Our Misers also reduce the overall stress loads on the equipment, helping to reduce associated maintenance costs. In addition, customers could play an important role in helping to improve our environment, since our Miser products have been demonstrated to reduce the emission of Greenhouse gases of up to 2200 lbs. of CO₂ and 3600g of NO_x per machine per year. The foregoing discussion of greenhouse gases assumes that the energy savings, resulting from our product, resulted in a corresponding reduction of energy produced by the energy production plant.

THE OPPORTUNITY

Everyday devices from vending machines and logistics equipment to steam valves, refrigerators, security systems, and countless other devices can be better managed by embedding thin-client computing technology with network connectivity into each unit. Using wired and/or wireless networks and centralized, server-based software applications, managers can remotely monitor, control, and optimize a network of devices regardless of where they are located, resulting in a host of benefits including lower maintenance costs, improved inventory and transaction management, and increased operating efficiency.

This market opportunity is known by several different names, including Machine-to-Machine ("M2M") networking, Device Relationship Management ("DRM"), the Pervasive Internet and Device Networking. This industry is the convergence of computer-enabled devices and embedded systems, the Internet or other networking mediums, and centralized enterprise data-management tools. By connecting stand-alone devices into large-scale networks, new opportunities emerge between brand marketers, service providers, and their customers. Networked devices enable remote monitoring, cashless transactions, sales analysis, and optimized machine maintenance - all yielding higher return on investment for operators while increasing consumer satisfaction with improved and expanded services.

Brand marketers will be able to provide their products and services to customers wherever and whenever the need arises. They will no longer be limited to existing distribution channels and outlets. Just as beverage vending machines bring bottlers' products beyond the supermarket to the location where and when the customer wants them, a vast range of products and branding opportunities can be made available to customers at the point-of-need. In laundry, makers of detergent and fabric softener can have their products injected directly into a consumer's laundry, again putting their products at the point-of-need.

The market for networked device solutions is projected to be large and growing rapidly and includes a wide variety of segments such as the security and alarm, automated meter reading, fleet and asset management, and consumer telemetry markets. Networked devices will include personal devices (e.g. cell phones, PDAs), vehicles, containers, supply chain assets, medical devices, HVAC units, industrial machinery, home appliances, energy, accelerometers, pressure gauges, flow control indicators, biosensors, and countless other applications. According to an article, "Pervasive Internet", in M2M Magazine (Fall 2003), a minimum of 1.5 billion devices will be connected to the Internet worldwide by 2010. This represents a \$700 billion total opportunity including device enabling, monitoring, and providing value-added services made available by the M2M network, according to M2M Magazine.

We believe that an opportunity exists to combine our technology with world-class partners in order to deliver a best-in-class solution and emerge as a leader in the Device Networking industry. Our Company has begun addressing this opportunity by working in several initial verticals, which include vending, commercial laundry, self-service business centers and self-service kiosks. These services share several key attributes, specifically, they are all self-service, cash-based businesses that are distributed across broad geographic areas. We address the extremely broad range of Device Networking opportunities by licensing our technologies to equipment makers throughout a variety of market segments. Equipment makers will be able to merge our technology with their in-depth market expertise.

THE INDUSTRY

Our current customers are primarily in the vending, commercial laundry, business center and kiosk industry sectors. While these industry sectors represent only a small fraction of the total Device Networking market, these are the areas where we have gained the most traction. In addition to being our primary markets, these sectors serve as a compelling proof-of-concept for other Device Networking industry applications.

VENDING

Annual worldwide sales in the vending industry sector are estimated to be approximately \$143.5 billion, according to Vending Times Census of the Industry 2002. According to this Census, there are an estimated 8 million vending locations in the United States, and 30 million locations worldwide. The market segment that can be addressed by our end-to-end solution consists primarily of vended products retailing for \$1 or greater, which represents a Company estimated vended volume of approximately \$28 billion. Per census statistics, the overall market growth is 5% to 6% annually, while the addressable market segment for our end-to-end solution is growing more rapidly at 9% annually. Our VendingMiser(TM) energy conservation product can serve the entire vending market.

COMMERCIAL LAUNDRY

The domestic commercial laundry industry is estimated to be \$5 billion in annual sales and 3.5 million commercial laundry machines in operation, according to Coin Laundry Association, October 2000 edition. The average annual growth rate for the commercial laundry sector is estimated to be between 10% and 12%. The Company believes the inline sale of additives (i.e. push-button selections for detergent and softener) may lead to a significant increase in this figure due to larger net margins over traditional industry standards. The addressable market is primarily the seven largest laundry operators, as well as several other small operators. These operators own and manage the equipment that is installed in multi-housing and college and university locations. The addressable market excludes those who own single laundromats.

BUSINESS CENTERS

There are currently 52,000 hotels in the United States and 300,000 worldwide, per American Hotel & Lodging Association's website, www.ahma.com. There is demand for business center availability in hotels, with ever-greater percentages of travelers needing and expecting use of computers, printers, fax machines, copiers, and other business services. We believe that there are 5,900 hotels in the primary addressable market - business oriented hotels with over 150 rooms - and 13,900 in the secondary market, hotels with 75 to 150 rooms. The growth rate for the overall market is 5% annually, with the addressable market gaining 8% annually.

KIOSK

According to a report by Frost and Sullivan Consulting, Kiosks represent a \$500 million market. Kiosks are becoming increasingly popular as self-service "specialty" shops within larger retail environments. Value-added services, such as photo enlargement and custom imaging are a prominent example, located within many major retailers. Since pricing on these products is generally higher than \$1 or \$2, cashless payment options are essential.

OUR SUITE OF PRODUCTS AND SERVICES

INTELLIGENT VENDING(TM)

Developed for the vending industry, Intelligent Vending(TM) is our end-to-end vending solution. This system bundles e-Port(TM), USALive(TM), and its web-based remote monitoring, management, reporting and turnkey payment processing. Our latest improvement to Intelligent Vending(TM) is the introduction of our e-Port(TM) G-5. This device is smaller due to its one-piece design and costs less to manufacture, as compared to our e-Port(TM) G-4 device. These features make it more affordable and easier to install, improving our customers' rate of return.

Vending operators purchasing our Intelligent Vending(TM) products and services will have the capability: to conduct cashless transactions via credit cards, debit cards and other payment mediums such as employee/student ids and hotel room keys; to offer improved and expanded customer services by utilizing 'real-time', web-based reporting to keep machine inventory at a desirable level and consumer access to our 1-800 help-desk center for customer purchasing inquiries, both providing the end-user a more consistent user experience; to reduce operational costs through utilization of our remote monitoring technology, thereby maximizing the scheduling of service visits and limiting 'out-of-stock' machines; and to reduce theft and vandalism by providing 100% accountability of all sales transactions and reducing the cash reserves inside the machine.

eSUDS(TM)

eSuds(TM) is our end-to-end solution developed for the commercial laundry industry. The eSuds(TM) system bundles e-Port(TM) and USALive(TM) to offer a cash-free payment option, web-based remote monitoring and management, an e-mail alert system to notify users regarding machine availability, cycle completion, and other events. The Company is also in the process of developing an injectable detergent and fabric softener system which will allow users to inject and pay for detergent and softener directly into their wash cycle, as well as allow laundry operators to benefit from additional revenue through the sale of detergent automatically added to the wash cycle. eSuds(TM) also supports a variety of value-added services such as custom advertising or subscription-based payments.

Laundry operators purchasing our eSuds(TM) system will have the capability: to conduct cashless transactions via credit cards, debit cards and other payment mediums such as student ids; to reduce operational costs through utilization of our remote monitoring technology, thereby maximizing the scheduling of service visits and increasing machine up-time. The system can also increase customer satisfaction through improved maintenance, higher machine availability, specialized services (i.e. email alerts to indicate that laundry cycle is finished) and value-added services such as pay-injection laundry detergent and fabric softener, and the convenience of non-cash transactions. Installations have been completed at Carnegie Mellon University, Cedarville College, and Bluffton College. We are working with distributors to install eSuds(TM) at other colleges and universities based on the positive results of these installations.

TRANSACT(TM) AND BUSINESS EXPRESS(R)

TransAct(TM), our original payment technology system developed for self-service business center devices, such as PCs, fax machines, and copiers, is a cashless transaction-enabling terminal that permits customers to use office equipment quickly and simply with the swipe of a major credit card. The TransAct(TM) device can be sold as a stand-alone unit for customers wishing to integrate it with their own office equipment.

Business Express(R) is a bundled solution comprised of the TransAct(TM) payment terminal and a suite of office equipment (i.e. PC, fax and copier). Business Express(R) enables hoteliers and others to offer unmanned business services 24/7/365. In addition, the Company offers the Public PC(TM), the Public Fax(TM) and the Public Copier(TM) to customers wishing to purchase a specific self-service product versus a complete bundled Business Center(R). The Company also provides additional value-added service and revenue generating opportunities with BEXPrint(TM), our proprietary technology that allows users, without access to a printer, to send a document to a secure web-site for storage, and then password retrieval of the document for printing at our Business Center locations, and our Kinko's relationship, which gives our Business Center users access to the nearest, convenient Kinko's center for their more advance business center needs.

Although larger hotels are expected to provide business centers to its guests, operation of the center can be costly. In addition to the cost of operating a supervised business center, operating hours usually are limited due to staff availability. Business Express(R) provides a cost-effective solution.

KIOSK

We provide an end-to-end solution that utilizes e-Port(TM) and USALive(TM) to offer a cash-free payment option and web-based remote monitoring and management for all kiosk types. Kiosks permit a host of new services to become available at the point-of-demand, such as Sony's self-service, PictureStation kiosks, where consumers can produce prints from their own digital media. Our solution also enables Kiosks to sell a variety of more expensive items.

Sony's PictureStation kiosks, which use our e-Port(TM) software solution, have been installed in approximately 60 locations across the US.

ENERGY MANAGEMENT PRODUCTS

The Miser family of energy-control devices, include:

VendingMiser(TM) - installs in a cold drink vending machine and can reduce the power consumption of the vending machine by an average of 50%.

CoolerMiser(TM) - reduces the energy used by sliding glass or pull open glass-front coolers that contain non-perishable goods.

SnackMiser(TM) - reduces the amount of electricity used by non-refrigerated snack vending machines.

PlugMiser(TM) - reduces the amount of electricity used by all types of plug loads including those found in personal or modular offices (printers, personal heaters, and radios), video arcade games, and more.

The Company has completed the development of the Internal VendingMiser(TM) and Internal CoolerMiser(TM). The second generation of these devices is installed directly inside the machine and has the capability to control the cooling system and the advertising lights separately.

SALES AND MARKETING

The Company's sales strategy includes both direct sales and channel development, depending on the particular dynamics of each of our markets. Our marketing strategy is diversified and includes media relations, direct mail, conferences and client referrals. As of June 30, 2004, the Company was marketing and selling its products through its full time staff consisting of thirteen people.

DIRECT SALES

We sell directly to the major operators in each of our target markets. Each of our target markets is dominated by a handful of large companies, and these companies comprise our primary customer base. In the vending sector, approximately ten large operators dominate the sector; in the commercial laundry sector, seven operators own the majority of the market. We also work directly with hoteliers for our TransAct(TM) and Business Express(R) products.

Within the vending industry, our customers include soft drink bottlers and independent vending operators throughout the United States. On the soft drink bottler side, heavy effort is being put into securing initial distribution agreements. Three of the premier national independent vending operators, the Compass Group (Canteen, Flik, Eurest, Restaurant Associates and other affiliates), ARAMARK and Sodexo, have already installed approximately 140 e-Port(TM) devices.

CHANNEL SALES

We currently engage in channel sales for our TransAct(TM) and Business Express(R) products. We have established traction by working with audio-visual companies that service major hotels.

MARKETING

Our marketing strategy consists of building our brand by creating a company and product presence at industry conferences and events, in order to raise visibility within our industry, create opportunity to conduct product demonstrations and consult with potential customers one-on-one; sponsoring of education workshops with trade associations such as National Automated Merchandiser Association (NAMA), to educate the industry on the importance and benefits of our solution and establish our position as the industry leader; develop several one-sheet case studies to demonstrate real-life success stories to dramatically illustrate the value of our products; the use of direct mail campaigns; advertising in vertically-oriented trade publications such as Vending Times, Automatic Merchandiser and Energy User News; and cultivate a network of State governments and utility companies to provide incentives or underwriting for our energy management products.

STRATEGIC RELATIONSHIPS

IBM CORPORATION

We are an official "preferred" hardware, software, and services solution for IBM Corporation. Together with IBM, we market and sell combined information technology solutions to customers in the intelligent vending, retail point of sale, and networked home applications markets. The proposed combined product offerings include the e-Port(TM) terminal and related network, and IBM's products and services, including but not limited to systems integration and logistics support and delivery services.

ZiLOG, INC.

In October 2002, we signed a strategic alliance with ZiLOG, a leader in the 8-bit microprocessor market to co-develop an e-Port(TM) enabled chip, which the Company currently uses in its eSuds(TM) and Intelligent Vending(TM) solutions, and to co-market a joint product that combines ZiLOG's Web-enabled microprocessor, the eZ80(R) Webserver, with the benefits of our wireless device networking, cashless transactions processing, and remote control and monitoring capabilities.

During August 2004, the Company and ZiLOG(R) announced the completion of the combination of ZiLOG's ezAcclaim!(TM) Family of Flash microcontrollers and e-Port(TM), enabling businesses to install networking capability into every day commercial applications at an affordable price. Our new eSuds(TM) solution incorporates this new microcontroller. As of September 2004, the Company has not yet earned revenues from this agreement.

MARS ELECTRONICS INC. (MEI)

In March 2002, we signed an agreement with MEI, a world leader in the manufacture of electronic dollar bill and coin mechanisms found in vending machines, coin telephones, and other equipment, to jointly develop a cashless payment system.

In September 2004, MEI and the Company signed a technology licensing and sales agreement to bring a turnkey cash and credit card payment system to the vending market. Under the agreement, MEI licensed our intellectual property so operators can connect to USALive(TM), our network for services and credit card transaction capability. As of September 2004, the Company has not yet earned revenues from these agreements.

UNILEVER

In October 2003, the Company signed a strategic alliance agreement with Conopco, Inc. dba Unilever Home & Personal Care North America to be the exclusive provider of laundry detergent for the eSuds(TM) program to be used in colleges and universities located in the United States. Under the terms of the agreement, the Company agrees to be a reseller of Unilever Products that are dispensed through the USA eSuds(TM) System and the Company will also receive fees from Unilever based on the number of injections of Unilever Products through the USA eSuds(TM) System. As of September 2004, the Company has not yet earned revenues from product sales under this agreement.

AT&T WIRELESS

In July 2004, we signed an agreement to use AT&T Wireless' digital wireless wide area network for transport of data, including credit card transactions and inventory management data. AT&T Wireless is a provider of advanced wireless voice and data services for consumers and businesses, operating one of the largest digital wireless networks in North America and the fastest nationwide wireless data network in the United States.

MANUFACTURING

The Company utilizes independent third party companies for the manufacturing of its products. The Company purchases other components of its business center (computers, printers, fax and copy machines) through various manufacturers and resellers. Our manufacturing process mainly consists of quality assurance of materials and testing of finished goods received from our contract manufacturers. We have not entered into a long-term contract with our contract manufacturers, nor have we agreed to commit to purchase certain quantities of materials or finished goods beyond those submitted under routine purchase orders, typically covering short-term forecasts.

COMPETITION

Although the industries we operate in are established, the technology we provide is new and emerging. As such, we expect increasing competition in the future. While there are a number of companies providing certain limited aspects of our offering (i.e. raw network connectivity for client devices), few companies offer an end-to-end solution similar to our suite of products and services. To be successful, the Company must offer the highest quality products and services, and maintain the following advantages over its competitors:

SUPERIOR PRODUCT OFFERING

While some companies offer either reporting systems or cashless transaction processing capability, we believe we are the only provider offering both capabilities. We have developed an efficient solution for facilitating cashless payments for low cost vended goods and services and for transporting inventory and machine data, both through wire and wireless means. Additionally, we believe no reporting system provides the depth of functionality that our system provides. Our system goes beyond simple data reporting to analyze, organize, and streamline that data into actionable information.

RELATIONSHIPS WITH BEST-IN-CLASS STRATEGIC PARTNERS

We have established partnerships with leading providers in our industry such as IBM, Mars Electronics, and ZiLOG. Our partnerships are designed to extend our reach and enable us to service the largest industry segments.

MULTI-VERTICAL EXPERTISE

We believe that none of our competitors serve the broad range of industry verticals that we do. As such, we are able to leverage insights and best practices from one industry sector for use in a new sector.

We are aware of three competitors who offer unattended business centers in the hospitality industry in competition with Business Express(TM). We are aware of one competitor for our e-Port(TM) control system, which is being used in the beverage vending industry. We believe that there are very few installations of this product at the present time.

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, vending machines, or facsimile machines, are capable of developing products or utilizing their existing products in direct competition with our e-Port control systems targeted to the beverage vending industry. 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. Any such increased competition may result in reduced sales and/or 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. The Company is also aware of several businesses that make available use of the Internet and use of personal computers to hotel guests in their hotel rooms. Such services might compete with the Company's Business Express, and the locations may not order the Business Express, or if ordered, the hotel guest may not use it.

CUSTOMER CONCENTRATIONS

Approximately 39% and 57% of the Company's accounts receivable at June 30, 2004 and 2003, respectively, were concentrated with two customers. Approximately 13% and 35% of the Company's revenues for the years ended June 30, 2004 and 2003, respectively, were concentrated with one and two customers, respectively.

TRADEMARKS, PROPRIETARY INFORMATION AND PATENTS

The Company received federal registration approval of the following trademarks: Business Express, Express Solutions, C3X, TransAct, Public PC, PC Express, Copy Express, Credit Card Copy Express, Credit Card Computer Express, Credit Card Printer Express, Credit Card Microfiche Express, Credit Card Debit Express, The Office That Never Sleeps, Intelligent Vending, e-Port, Dial-A-Vend, Dial-A-Snack, and Dial-A-Vend.com. The following trademarks are pending federal registration: USALive and e-Port The Next Generation in Vending. Through its wholly owned subsidiary, Stitch Networks, the Company has secured one registered trademark eVend.net and three trademarks that are pending registration: eSuds.net, E-ppliance and Stitch Networks. In addition, due to the July 2003 acquisition of Bayview, the Company has secured the VendingMiser trademark and the trademark SnackMiser is pending federal registration.

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, that they will be recognized as trade secrets by a court of law, or that others will not capitalize on certain aspects of the Company's technology.

Through July 28, 2004, 49 United States patents and 2 Canadian patents have been issued to the Company (including 4 patents acquired in July 2003 from Bayview). Thirty-four patents are pending (including 2 Canadian and 5 acquired from Bayview) and 3 patents have received notices of allowance as of July 28, 2004.

The list of issued patents is as follows:

- o U.S. Patent No. 5,619,024 entitled "Credit Card and Bank Issued Debit Card Operating System and Method for Controlling and Monitoring Access of Computer and Copy Equipment";
- o U.S. Patent No. 5,637,845 entitled "Credit and Bank Issued Debit Card Operating System and Method for Controlling a Prepaid Card Encoding/Dispensing Machine";
- o U.S. Patent No. D423,474 entitled "Dataport";
- o U.S. Patent No. D415,742 entitled "Laptop Dataport Enclosure";
- o U.S. Patent No. D418,878 entitled "Sign Holder";
- o U.S. Patent No. 6,056,194 entitled "System and Method for Networking and Controlling Vending Machines";
- o U.S. Patent No. D428,047 entitled "Electronic Commerce Terminal Enclosure";

- o U.S. Patent No. D428,444 entitled "Electronic Commerce Terminal Enclosure for a Vending Machine";
- o U.S. Patent No. 6,119,934 entitled "Credit Card, Smart Card and Bank Issued Debit Card Operated System and Method for Processing Electronic Transactions";
- o U.S. Patent No. 6,152,365 entitled "Credit and Bank Issued Debit Card Operated System and Method for Controlling a Vending Machine";
- o U.S. Patent No. D437,890 entitled "Electronic Commerce Terminal Enclosure with a Hooked Fastening Edge for a Vending Machine";
- o U.S. Patent No. D441,401 entitled "Electronic Commerce Terminal Enclosure with Brackets";
- o U.S. Patent No. 6,321,985 entitled "System and Method for Networking and Controlling Vending Machines";
- o U.S. Patent No. 6,505,095 entitled "System for Providing Remote Audit, Cashless Payment, and Interactive Transaction Capabilities in a Vending Machine" (Stitch);
- o U.S. Patent No. 6,389,337 entitled "Transacting e-commerce and Conducting e-business Related to Identifying and Procuring Automotive Service and Vehicle Replacement Parts" (Stitch);
- o U.S. Patent No. 6,021,626 entitled "Forming, Packaging, Storing, Displaying and Selling Clothing Articles"; and
- o U.S. Patent No. 6,152,845 entitled "Credit and Bank Issued Debit Card Operated System and Method for Controlling a Prepaid Card Encoding/Dispensing Machine";
- o U.S. Patent No. 6,622,124 entitled "Method of transacting an electronic mail, an electronic commerce, and an electronic business transaction by an electronic commerce terminal operated on a transportation vehicle";
- o U.S. Patent No. 6,615,186 entitled "Communicating interactive digital content between vehicles and internet based data processing resources for the purpose of transacting e-commerce or conducting e-business";
- o U.S. Patent No. 6,615,183 entitled "Method of warehousing user data entered at an electronic commerce terminal";
- o U.S. Patent No. 6,611,810 entitled "Store display window connected to an electronic commerce terminal";
- o U.S. Patent No. 6,609,103 entitled "Electronic commerce terminal for facilitating incentive-based purchasing on transportation vehicles";
- o U.S. Patent No. 6,609,102 entitled "Universal interactive advertising and payment system for public access electronic commerce and business related products and services";
- o U.S. Patent No. D478,577 entitled "Transceiver base unit";
- o U.S. Patent No. 6,606,605 entitled "Method to obtain customer specific data for public access electronic commerce services";

- o U.S. Patent No. 6,606,602 entitled "Vending machine control system having access to the internet for the purposes of transacting e-mail, e-commerce, and e-business, and for conducting vending transactions";
- o U.S. Patent No. 6,604,087 entitled "Vending access to the internet, business application software, e-commerce, and e-business in a hotel room";
- o U.S. Patent No. 6,604,086 entitled "Electronic commerce terminal connected to a vending machine operable as a telephone";
- o U.S. Patent No. 6,604,085 entitled "Universal interactive advertising and payment system network for public access electronic commerce and business related products and services";
- o U.S. Patent No. 6,601,040 entitled "Electronic commerce terminal for wirelessly communicating to a plurality of communication devices";
- o U.S. Patent No. 6,601,039 entitled "Gas pump control system having access to the Internet for the purposes of transacting e-mail, e-commerce, and e-business, and for conducting vending transactions";
- o U.S. Patent No. 6,601,038 entitled "Delivery of goods and services resultant from an electronic commerce transaction by way of a pack and ship type company";
- o U.S. Patent No. 6,601,037 entitled "System and method of processing credit card, e-commerce, and e-business transactions without the merchant incurring transaction processing fees or charges worldwide";
- o U.S. Patent No. D477,030 entitled "Vending machine cashless payment terminal";
- o U.S. Patent No. D476,037 entitled "User interface bracket for a point of sale terminal";
- o U.S. Patent No. D476,036 entitled "Printer bracket for point of sale terminal";
- o U.S. Patent No. D475,751 entitled "User interface bracket for a point of sale terminal";
- o U.S. Patent No. D475,750 entitled "Paper guide for a point of sale terminal";
- o U.S. Patent No. D475,414 entitled "Printer bracket for point of sale terminal";
- o U.S. Patent No. 5,844,808 entitled "Apparatus and methods for monitoring and communicating with a plurality of networked vending machines";
- o U.S. Patent No. 6,581,396 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode";
- o U.S. Patent No. 6,389,822 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode";

- o U.S. Patent No. 6,243,626 entitled "External power management device with current monitoring precluding shutdown during high current"; and
- o U.S. Patent No. 5,477,476 entitled "Power conservation system for computer peripherals";
- o U.S. Patent No. 6,629,080 entitled "Transaction processing method of fulfilling an electronic commerce transaction by an electronic commerce terminal system";
- o U.S. Patent No. D480,948 entitled "Mounting bracket for mounting a cashless payment terminal to a vending machine";
- o U.S. Patent No. 6,643,623 entitled "A method of transacting an electronic mail, an electronic commerce, and an electronic business transaction by an electronic commerce terminal using a gas pump";
- o U.S. Patent No. 6,684,197 entitled "Method of revaluing a private label card using an electronic commerce terminal (as amended)";
- o U.S. Patent No. 6,763,336 entitled "Method of transacting an e-mail, an e-commerce, and an e-business transaction by an electronic commerce terminal using a wirelessly networked plurality of portable devices";
- o Canadian Patent No. D199-1014 entitled "Sign holder";
- o Canadian Patent No. D199-1038 entitled "Laptop data port enclosure".

The Company believes that the U.S. patent No. 6,505,095 entitled "System for providing remote audit, cashless payment, and interactive transaction capabilities in a vending machine" is very important in protecting its intellectual property used in its e-Port(TM) control system targeted to the vending industry. The patent expires in July 2021.

RESEARCH AND DEVELOPMENT

Research and development expenses, which are included in general and administrative and compensation expense in the Consolidated Statements of Operations, were \$688,000 and \$1,505,000 for the years ended June 30, 2004 and 2003, respectively.

EMPLOYEES

On June 30, 2004, the Company had 46 employees, all of whom were full-time.

ITEM 2. DESCRIPTION OF PROPERTY

In March 2003, the Company entered into a lease for 12,864 square feet of space located in Malvern, Pennsylvania for its principal executive office and used for general administrative functions, sales activities, and product development. The lease term extends through December 31, 2008 and provides for escalating rent payments and a period of free rent prior to the commencement of the monthly lease payment in January 2004 of approximately \$25,000 per month.

The Company also leases 9,084 square feet of space, located in Malvern, Pennsylvania, on a month-to-month basis for a monthly payment of approximately \$8,000. During prior years, the facility was solely used to warehouse product. All product warehousing, shipping and customer support was transferred to this location from the executive office location during the first quarter of fiscal year 2005.

In connection with the acquisition of the energy conservation product line in July 2003 from Bayview Technology Group, LLC, the Company assumed leases for 6,384 square feet of space located in Denver, CO used for administrative functions, sales activities and product warehousing associated with the our Miser products. The lease terms extend through June 30, 2005 and provide for escalating rent payments currently at \$8,200 per month. The lease provides for additional rent for a prorated share of operating costs for the entire facility.

ITEM 3. LEGAL PROCEEDINGS

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Stock of the Company is currently traded on the OTC Electronic Bulletin Board under the symbol USTT.

The high and low bid prices on the OTC Electronic Bulletin Board for the Common Stock were as follows. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

| Year ended June 30, 2003 ----- | High ---- | Low --- |
|--|--------------|------------|
| First Quarter (through September 30, 2002) | \$ 0.39 | \$ 0.14 |
| Second Quarter (through December 31, 2002) | \$ 0.23 | \$ 0.13 |
| Third Quarter (through March 31, 2003) | \$ 0.22 | \$ 0.16 |
| Fourth Quarter (through June 30, 2003) | \$ 0.64 | \$ 0.17 |
| | | |
| Year ended June 30, 2004 ----- | | |
| First Quarter (through September 30, 2003) | \$ 0.54 | \$ 0.34 |
| Second Quarter (through December 31, 2003) | \$ 0.42 | \$ 0.12 |
| Third Quarter (through March 31, 2004) | \$ 0.29 | \$ 0.15 |
| Fourth Quarter (through June 30, 2004) | \$ 0.34 | \$ 0.17 |

On June 30, 2004 there were 1,510 record holders of the Common Stock and 544 record holders of the Preferred Stock.

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 Common Stock or Preferred Stock. 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, 2004, such accumulated unpaid dividends amounted to \$6,677,180.

As of June 30, 2004, equity securities authorized for issuance by the Registrant with respect to compensation plans were as follows:

| Plan category | Number of securities to be issued upon exercises of outstanding options and warrants | Weighted average exercise price of outstanding options and warrants | Number of securities remaining available for future issuance |
|--|--|---|--|
| Equity compensation plans approved by security holders | None | Not applicable | None |
| Equity compensation plans not approved by security holders | 1,897,472(a) | \$0.25 | 14,409,273(b) |

a) Represents stock options outstanding as of June 30, 2004 for the purchase of shares of Common Stock of the Company expiring at various times from February 2006 through May 2007. These options were granted to employees and directors of the Company, former option holders of Stitch Networks Corporation and consultants to the Company. Exercise prices for all the options outstanding were at prices that were either equal to or greater than the market price of the Company's Common Stock on the dates the options were granted.

b) Represents 14,000,000 shares of Common Stock issuable to the Company's Chief Executive Officer under the terms of his employment agreement plus 409,273 shares of Common Stock issuable under the Company's 2004-A Stock Compensation Plan.

In July 2003 the Company and the Company's Chief Executive Officer (CEO) amended the terms of his employment agreement (expiring June 2005). Under the terms of the previous Executive Employment Agreement, the CEO would have been granted seven percent (non-dilutive) of all the then issued and outstanding shares of the Company's Common Stock in the event a "USA Transaction" (as defined) occurs, which among other events includes a change in control of the Company. The amended terms of the Executive Employment Agreement, eliminated the seven percent (non-dilutive) right to receive Common Stock upon a "USA Transaction", and granted the CEO an aggregate of 14,000,000 shares of Common Stock in the event a "USA Transaction" occurs. In exchange for the amendment of these terms, the Company issued an aggregate of 10,500,000 shares of its Common Stock to the CEO. In connection with this amendment, the CEO also entered into a lock-up agreement pursuant to which he shall not sell 2,500,000 of these shares for a one-year period and 8,000,000 of these shares for a two-year period. The CEO will not be required to pay any additional consideration for these shares of Common Stock. At the time of a "USA Transaction", all of the 14,000,000 shares to be issued to the CEO in connection with this amendment are automatically deemed to be issued and outstanding, and will be entitled to be treated as any other issued and outstanding shares of Common Stock. These shares will be irrevocable and fully vested, and have no expiration date and will not be affected by the termination of the CEO with the Company for any reason whatsoever.

The Company's Board of Directors established and authorized the 2004-A Stock Compensation Plan in April 2004 for use in compensating employees, directors and consultants through the issuance of shares of Common Stock of the Company. There were 500,000 shares authorized under the Plan. The underlying shares for the Plan have been registered with the Securities and Exchange Commission as an employee benefit plan under Form S-8. As of June 30, 2004 there were 409,273 shares available for future issuance under the plan.

On April 28, 2004 the Company issued its Chief Financial Officer, Mary West Young, options to purchase 300,000 shares of Common Stock for \$.30 per share, which vest ratably over a two-year period. The issuance of all of the foregoing options was made in reliance upon the exemption provided by Section 4(2) of the Act as all of the options were issued to an executive officer and did not involve any general solicitation or advertising.

As of June 30, 2004, shares of Common Stock reserved for future issuance were as follows:

1,897,472 shares issuable upon the exercise of stock options at exercise prices ranging from \$.165 to \$2.00 per share

33,457,191 shares issuable upon the exercise of common stock warrants at exercise prices ranging from \$.07 to \$1.25 per share

522,742 shares issuable upon the conversion of outstanding Preferred Stock

667,718 shares issuable upon the conversion of unpaid cumulative preferred dividends

47,351,320 shares issuable upon the conversion of Senior Notes having an aggregate face value of \$9,695,840

RECENT SALES OF UNREGISTERED SECURITIES

In February 2004, the Company initiated a private placement offering (the "2004-A" offering), consisting of up to 35,000,000 shares of restricted Common Stock at \$0.15 per share to accredited investors. The securities were offered and sold pursuant to the exemption from registration set forth in Section 4(2) of the Act and Rule 506 promulgated thereunder. All of the investors were either pre-existing security holders or business associates. The offer and sale thereof did not involve any general advertising or solicitation and the securities contained appropriate restrictive legends under the Act. The Company agreed at its cost and expense to use its best efforts to register the Common Stock for resale by the holder under the Act. During the quarter ended June 30, 2004, the Company sold 27,740,833 shares to 34 accredited investors for gross proceeds of \$4,161,125. These shares were registered with the Securities and Exchange Commission for resale under Form SB-2 that became effective August 11, 2004.

In June 2004, we issued warrants to purchase up to 3,716,496 shares of Common Stock to the holders of our senior notes who elected to receive warrants in lieu of the cash interest payment due for the quarters ended June 30, 2002, September 30, 2002, December 31, 2002, March 31, 2003, June 30, 2003, September 30, 2003 and December 31, 2003. The warrants are exercisable at \$.20 per share at any time through December 31, 2004. We have agreed to register the shares underlying the warrants under the Act for resale for a period of 2 years. The securities were offered and sold under the exemption from registration set forth in Rule 506 promulgated under the Act. All of the noteholders are accredited investors and existing security holders of the Company. There was no general solicitation or advertising involved.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

CRITICAL ACCOUNTING POLICIES

GENERAL

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates. We believe the policies and estimates related to revenue recognition, software development costs, impairment of long-lived assets, goodwill and intangible assets, and investments represent our critical accounting policies and estimates. Future results may differ from our estimates under different assumptions or conditions.

REVENUE RECOGNITION

Revenue from the sale of equipment is recognized on the terms of freight-on-board shipping point, or upon installation and acceptance of the equipment if installation services are purchased for the related equipment. Transaction processing revenue is recognized upon the usage of the Company's cashless payment and control network. License fees for access to the Company's devices and network services are recognized on a monthly basis. Product revenues are recognized for the sale of products from Company owned vending machines when there is purchase and acceptance by the vending customer. The Company estimates an allowance for product returns at the date of sale.

SOFTWARE DEVELOPMENT COSTS

The Company capitalizes software development costs pursuant to Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", after technological feasibility of the software is established and through the product's availability for general release to the Company's customers. All costs incurred in the research and development of new software and costs incurred prior to the establishment of technological feasibility are expensed as incurred. Amortization of software development costs commences when the product becomes available for general release to customers. Amortization of software development costs is calculated as the greater of the amount computed using (i) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues of that product or (ii) the straight-line method over the remaining estimated economic life of the product. The Company reviews the unamortized software development costs at each balance sheet date and, if necessary, will write down the balance to net realizable value if the unamortized costs exceed the net realizable value of the asset.

Software development costs related to the development of the multi-media e-Port drink product and related internal network were capitalized and have been amortized over a useful life of two-years that ended during the year ended June 30, 2004. Amortization expense, reflected in cost of sales, was approximately \$999,000 and \$1,331,000 during the years ended June 30, 2004 and 2003, respectively.

IMPAIRMENT OF LONG LIVED ASSETS

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets" ("FAS 144"), the Company reviews its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amount of an asset or group of assets exceeds its net realizable value, the asset will be written down to its fair value. In the period when the plan of sale criteria of FAS 144 are met, long-lived assets are reported as held for sale, depreciation and amortization cease, and the assets are reported at the lower of carrying value or fair value less costs to sell.

During the fourth quarter of fiscal year 2003, the Company reviewed certain long-lived assets (vending machines) and determined that such assets were impaired. These vending machines were used in connection with the Company's program with Kodak to sell disposable cameras and film pursuant to the Kodak Vending Placement Agreement. Management determined that it was more likely than not that these vending machines would be disposed of before the end of their previously estimated useful lives. The estimated undiscounted cash flows for this group of assets was less than the carrying value of the related assets. As a result, the Company recorded a charge of approximately \$321,000 representing the difference between the fair value as determined from a quoted market price and the carrying value of the group of assets. Such amount is reflected in depreciation expense in the 2003 Consolidated Statement of Operations.

Effective December 31, 2003, the Kodak Vending Placement Agreement was terminated. As a result, the carrying value of the vending machines were further impaired and a charge of approximately \$367,000 was recorded as a component of the gain on contract settlement in the June 30, 2004 Consolidated Statement of Operations to reflect these assets at their realizable value. The remaining value of these vending machines is reported as assets held for sale in the Consolidated Balance Sheet as of June 30, 2004.

GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of cost over fair value of the net assets purchased in acquisitions. The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and other Intangible Assets" ("FAS 142"). Under FAS 142, goodwill is not amortized to earnings, but instead is subject to periodic testing for impairment. The Company tests goodwill for impairment using a two-step process. The first step screens for potential impairment, while the second step measures the amount of impairment. The Company uses a discounted cash flow analysis to complete the first step in this process. Testing for impairment is to be done at least annually and at other times if events or circumstances arise that indicate that impairment may have occurred. The Company has selected April 1 as its annual test date. The Company has concluded there was no impairment of goodwill as a result of its testing on July 1, 2002 (the transitional test date upon adopting FAS 142), April 1, 2003 and April 1, 2004.

Intangible assets include patents, trademarks and non-compete arrangements purchased in acquisitions. Amortization expense related to these intangible assets was \$1,208,668 and \$292,000 during the years ended June 30, 2004 and 2003, respectively.

INVESTMENTS

The Company's accounts for investments in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115"). Management determines the appropriate classifications of securities at the time of purchase and reevaluates such designation as of each balance sheet date. Available for sale securities are carried at fair value, with the unrealized gains and losses reported as a separate component of stockholders' equity in other comprehensive income (loss). A judgmental aspect of accounting for investments involves determining whether an other-than-temporary decline in value of the investment has been sustained. If it has been determined that an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value, by a charge to earnings. Such evaluation is dependent on the specific facts and circumstances. Factors that are considered by the Company each quarter in determining whether an other-than-temporary decline in value has occurred include: the market value of the security in relation to its cost basis; the financial condition of the investee; and the intent and ability to retain the investment for a sufficient period of time to allow for recovery in the market value of the investment. In evaluating the factors above for available-for-sale securities, management presumes a decline in value to be other-than-temporary if the quoted market price of the security is below the investment's cost basis for a period of six months or more. However, the presumption of an other-than-temporary decline in these instances may be overcome if there is persuasive evidence indicating that the decline is temporary in nature (e.g., strong operating performance of investee, historical volatility of investee, etc.).

During the fiscal year ended June 30, 2003, the Company invested in the Jubilee Investment Trust, PLC ("Jubilee"), a United Kingdom investment trust whose shares trade on the London Stock Exchange. The investment in Jubilee has been accounted for as "available for sale". At June 30, 2003, the Company determined in accordance with FAS 115, that the decline in the market value of this investment was "other than temporary" as the security's quoted market price was below the investments' cost basis for a period of six months or more. Accordingly, the Company wrote down the investment to its fair value of \$904,049, realizing an impairment loss of \$1,945,951. During fiscal year 2004, the Company sold 1,669,091 of its Jubilee shares for net proceeds of \$1,471,140 and realized a gain of \$603,480 from these sales. An unrealized gain of \$32,249 on the remaining shares held by the Company is reflected in shareholders' equity as accumulated other comprehensive income at June 30, 2004.

FORWARD LOOKING STATEMENTS

This 10-KSB contains certain forward looking statements regarding, among other things, the anticipated financial and operating results of the Company. For this purpose, forward looking statements are any statements contained herein that are not statements of historical fact and include, but are not limited to, those preceded by or that include the words, "believes," "expects," "anticipates," or similar expressions. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward looking information is based on various factors and was derived using numerous assumptions. Important factors that could cause the Company's actual results to differ materially from those projected, include, for example (i) the ability of the Company to generate sufficient sales to generate operating profits, or to sell products at a profit, (ii) the ability of the Company to raise funds in the future through sales of securities, (iii) whether the Company is able to enter into binding agreements with third parties to assist in product or network development, (iv) the ability of the Company to commercialize its developmental products, or if actually commercialized, to obtain commercial acceptance thereof, (v) the ability of the Company to compete with its competitors to obtain market share, (vi) the ability of the Company to obtain sufficient funds through operations or otherwise to repay its debt obligations including but not limited to Senior Notes, or to fund development and marketing of its products; (vii) the ability of the Company to obtain approval of its pending patent applications, (viii) the ability of the Company to satisfy its trade obligations included in accounts payable and accrued liabilities, and (ix) the ability of the Company to predict or estimate its future quarterly or annual revenues given the developing and unpredictable market for its products and the lack of established revenues. Although the Company believes that the forward looking statements contained herein are reasonable, it can give no assurance that the Company's expectations will be met.

RESULTS OF OPERATIONS

FISCAL YEAR ENDED JUNE 30, 2004

Revenues for the fiscal year ended June 30, 2004 were \$5,632,815, an increase of \$2,779,747 or 97% from the fiscal year ended June 30, 2003. This increase was primarily attributed to sales of the Company's energy management equipment during the fiscal year ended June 30, 2004. Such revenues did not exist in fiscal year ended June 30, 2003 since the acquisition of Bayview occurred in July 2003. The increase was also due to increases in the sale of our networked devices and related services. Revenues are discussed in more detail as follows:

Equipment sales: Revenues from equipment sales increased to \$4,349,566 from \$1,034,427 in the prior fiscal year, an increase of \$3,315,139 or 320%. This increase is mainly due to sales of approximately \$3,025,000 of the Company's energy management equipment for the fiscal year ended June 30, 2004. As noted above, such revenues did not exist in the prior fiscal year. In addition, sales of the Company's cashless technology equipment, which includes e-Port, e-Suds and Kiosk systems, increased to \$736,000, approximately \$349,000 or 90% over the prior fiscal year. The increases in sales were offset by a decrease in Business Center equipment sales of approximately \$59,000.

License and transaction fees: Revenues from license and transaction fees decreased \$395,922 or 29% from \$1,373,573 to \$977,651 for the fiscal years ended June 30, 2003 and 2004, respectively. This decrease was primarily due to a decrease in fees earned from the Kodak Vending Placement Agreement of approximately \$387,000, which resulted from the termination of the contract on December 31, 2003.

Product sales and other: Revenues from product sales and other decreased to \$305,598 from \$445,068, a decrease of \$139,470 or 31% from the prior fiscal year. This decrease was due to a decrease in camera and film sales from Company owned vending machines of approximately \$340,000 as a result of the termination of the Kodak Vending Placement Agreement. This decrease was offset by \$200,000 of revenue relating to the Strategic Alliance Agreement executed in October 2003 between the Company and Conopco, Inc dba Unilever Home & Personal Care North America.

Cost of sales consisted of equipment, product and labor costs of approximately \$2,503,000 and \$1,085,000 for the fiscal years ended June 31, 2004 and 2003, respectively, an increase of \$1,418,000; software development amortization of approximately \$999,000 and \$1,331,000 for the fiscal years ended June 30, 2004 and 2003, respectively, a decrease of \$332,000; and network and transaction related costs of \$828,000 and \$555,000 for the years ended June 30, 2004 and 2003, respectively, an increase of \$273,000. The total increase of \$1,358,249 or 46% in cost of sales from \$2,971,443 to \$4,329,692 for the years ended June 30, 2003 and 2004, respectively, was principally attributable to the increase in equipment sales.

Gross profit for the fiscal year ended June 30, 2004 was \$1,303,123, compared to a gross loss of \$118,375 for fiscal year ended June 30, 2003. The increase of \$1,421,498 was due to increases in hardware sales, particularly the addition of energy management equipment sales, which yield a higher profit margin and were not present in the prior fiscal year, as well as a decrease of approximately \$332,000 related to the amortization of software development costs, which were fully amortized as of March 31, 2004.

Total operating expenses for the fiscal year ended June 30, 2004 was \$18,770,423, an increase of \$3,829,159 or 26% over the prior fiscal year. The components of operating expenses (General and administrative, Compensation, Depreciation and amortization and Loss on debt modification) and the causes of this increase are explained in further detail, below:

General and administrative expenses decreased from \$7,194,684 for the fiscal year ended June 30, 2003 to \$6,747,824 for the fiscal year ended June 30, 2004, a decrease of \$446,860 or 6%. The decrease is due to decreases of \$1,717,000 of professional fees, primarily related to business consulting, promotion and public relations and decreases of \$134,000 in IT consulting fees, offset by increases in overall general and administrative expenses of approximately \$1,184,000 related to the acquired energy management operations, as such expenses did not exist in the prior fiscal year, an increase of \$118,000 in expenses related to the recruitment of executive personnel, and an increase of \$164,000 in bad debt expense related to an increase in the allowance for uncollectible accounts as a result of the increase in sales and accounts receivable.

Compensation expense increased to \$10,071,354 for the fiscal year ended June 30, 2004, a \$5,098,144 or 103% increase over the prior fiscal year. This increase is primarily due to the one-time issuance of 10,500,000 shares of Common Stock, valued at \$4,620,000, to the Company's Chief Executive Officer in connection with the amendment of his employment agreement. Additionally, approximately \$845,000 and \$376,000 of this increase relates to additional compensation, including salaries, employee benefits and sales commissions, from the Bayview acquisition in July 2003 and existing operations, respectively. These increases were offset by a \$742,000 reduction in compensation expense due to a reduction in bonuses awarded during the fiscal year ended June 30, 2004 as compared to the prior year.

Depreciation and amortization expense for the fiscal year ended June 30, 2004 was \$1,632,330, compared to \$1,251,716 for the prior fiscal year, a \$380,614 or 30% increase. This increase was attributable to amortization of intangible assets of \$917,000 and depreciation of property and equipment of \$122,000 acquired from Bayview in July 2003, offset by a decrease in depreciation of approximately \$337,000 related to existing assets that have reached the end of their estimated useful life. Additionally there was an impairment charge of \$321,476 recorded on a group of vending machines during fiscal year 2003.

The Company incurred charges during the fiscal year ended June 30, 2004 and 2003 relating to the modification of debt terms for certain of the Senior Notes in the amount of \$318,915 and \$1,521,654, respectively. This charge reflects the write-off of the unamortized debt discount remaining for Senior Notes scheduled to mature in December 2003 and December 2004, for which the conversion and maturity terms were modified. The Company offered these note modifications to manage short-term cash flows, which resulted in a non-cash charge.

During the fiscal year ended June 30, 2004, the Company sold 1,669,091 shares of its investment in the Jubilee Investment Trust for net proceeds of \$1,471,140, resulting in a gain of \$603,480. During the fiscal year ended June 30, 2003, the Company determined that the decline in the market value of the investment in the Jubilee Investment Trust was "other than temporary." Accordingly, the Company recorded a loss of \$1,945,951 on the investment during fiscal year 2003.

During the fiscal year ended June 30, 2004, a gain of \$429,204 was recorded relating to the termination of the Kodak Vending Placement Agreement. This gain is comprised of the payment from Kodak of approximately \$675,000 plus the cancellation of Stitch's obligation to the supplier of the vending machines of approximately \$124,000 less a write down of the carrying value of vending machines of approximately \$367,000 and a net write-off of amounts due to and from Kodak of \$3,000.

Total interest expense increased from \$4,978,600 to \$5,032,351 for the fiscal year ended June 30, 2003 and 2004, respectively, an increase of \$53,751 or 1%. Although the average principal balances were lower on the Company's 12% Senior Notes during fiscal year ended June 30, 2004 versus 2003, as the result of conversions of the Senior Notes into shares of the Company's Common Stock by Senior Note Holders, interest expense increased due to the accelerated amortization of debt discount charged to interest expense at the time of the conversion of the Senior Notes.

The fiscal year ended June 30, 2004 resulted in a net loss of \$21,426,178 (approximately \$10.9 million of non-cash charges) compared to a net loss of \$21,965,499 (approximately \$12.6 million of non-cash charges) for the prior fiscal year.

FISCAL YEAR ENDED JUNE 30, 2003

Revenues for the fiscal year ended June 30, 2003 were \$2,853,068, an increase of \$1,170,367 or 70% from the fiscal year ended June 30, 2002. This increase in revenues is primarily due to the inclusion of a full year of product revenues and service and transaction fees relating to Stitch Networks Corporation, which accounted for approximately \$1,136,000 of the revenue increase. The remaining increase was due to increased equipment sales of e-Port. Revenues are discussed in more detail as follows:

Equipment sales: Revenues from equipment sales increased to \$1,034,427 from \$795,938 in the prior fiscal year, an increase of \$238,489 or 30%. This increase was directly due to the increase in sales of the Company's e-Port equipment.

License and transaction fees: Revenues from license and transaction fees increased \$594,667 or 76% from \$778,906 to \$1,373,573 for the fiscal year ended June 30, 2002 and 2003, respectively. This increase was due to the inclusion of a full year of service fees earned on Company owned vending machines during fiscal year ended June 30, 2003, as the acquisition of Stitch occurred in May 2002, the fourth quarter of fiscal year ended June 30, 2002.

Product sales and other: Revenues from product sales and other increased to \$445,068 from \$107,857, an increase of \$337,211 or 313% from the prior fiscal year. This increase was due to the inclusion of a full year sales of camera and film from Company owned vending machines during fiscal year ended June 30, 2003, as the acquisition of Stitch occurred in May 2002, the fourth quarter of fiscal year ended June 30, 2002.

Cost of sales consisted of equipment, product and labor costs of approximately \$1,085,000 and \$695,000 for the fiscal years ended June 30, 2003 and 2002, respectively, an increase of \$390,000; software development amortization of approximately \$1,331,000 and \$2,996,000 for the fiscal years ended June 30, 2003 and 2002, respectively, a decrease of \$1,665,000; and network and transaction related costs of \$555,000 and \$372,000 for the years ended June 30, 2003 and 2002, respectively, an increase of \$183,000. The total decrease of \$1,091,458 or 27% in cost of sales from \$4,062,901 to \$2,971,443 for the years ended June 30, 2002 and 2003, respectively, was principally attributable to the decrease in software development amortization, offset by a full year of product costs related to the Kodak Vending Placement Agreement acquired with Stitch.

Total operating expenses for the fiscal year ended June 30, 2003 was \$14,941,264 (approximately \$11.6 million of non-cash charges), an increase of \$1,978,300 or 15% over the prior fiscal year. The components of operating expenses (General and administrative, Compensation, Depreciation and amortization and Loss on debt modification) and the causes of this increase are explained in further detail, below:

General and administrative expenses decreased from \$7,868,064 for the fiscal year ended June 30, 2002 to \$7,194,684 for the fiscal year ended June 30, 2003, a decrease of \$673,380 or 9%. This decrease is due to changes in the following expenses: consulting, advertising, public relations and promotion expense decrease of \$1,368,022 for reduced corporate and investor relations services offset by increases in product development and outside services of \$926,395 for work on the network.

Compensation expense increased to \$4,973,210 for the fiscal year ended June 30, 2003, a \$318,548 or 7% increase over the prior fiscal year. This increase is due to the inclusion of salaries of \$136,000 related to the Stitch operations as well as an increase of approximately \$200,000 in bonus expense during the fiscal year ended June 30, 2003 compared to the fiscal year ended June 30, 2002.

Depreciation and amortization expense for the fiscal year ended June 30, 2003 was \$1,251,716, compared to \$440,238 for the prior fiscal year, an \$811,478 or 184% increase. This increase was attributable to increased depreciation expense resulting from assets acquired in the Stitch acquisition, as well as the impairment loss of \$321,476 recorded on a group of vending machines during the fiscal year in accordance with SFAS No. 144.

The Company incurred charges during the fiscal year ended June 30, 2003 relating to the modification of debt terms for certain of the Senior Notes in the amount of \$1,521,654. There was no such comparable charge in the prior year. This charge was for the write-off of the unamortized debt discount remaining for Senior Notes scheduled to mature in December 2003 and December 2004 whose conversion and maturity terms were modified. The Company offered these note modifications to the Note holders, and recognized the related non-cash charge to operations in order to manage short-term cash flows.

In June 2003, the Company determined that the decline in the market value of the investment in the Jubilee Investment Trust was "other than temporary." Accordingly, the Company recorded a loss of \$1,945,951, which is reflected as a loss on investment. No such comparable loss was recorded in the previous year.

Total interest expense increased by \$2,991,166, due to the greater debt carried by the Company to finance its operations. A significant portion of interest expense is the amortization of non-cash debt discount.

The fiscal year ended June 30, 2003 resulted in a net loss of \$21,965,499 (approximately \$12.6 million of non-cash charges) compared to a net loss of \$17,314,807 (approximately \$11.0 million of non-cash charges) for the prior fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

For the year ended June 30, 2004, net cash of \$12,557,456 was used by operating activities, primarily due to the net loss of \$21,426,178 offset by non-cash charges totaling \$10,858,101 for transactions involving the issuance of Common Stock (for services and in connection with the amendment to the CEO's Executive Employment Agreement), depreciation and amortization of assets, amortization of debt discount, loss on the Senior Note modifications, and Senior Note interest expense paid through the issuance of Common Stock and Common Stock Warrants, offset by a gain on the sale of investment and a gain on contract settlement. In addition to these non-cash charges, the Company's net operating assets increased by \$1,989,379 (primarily inventory and accounts receivable), a substantial portion of which relates to the Bayview acquisition.

For the year ended June 30, 2004, net cash provided from investing activities was \$1,101,186, comprised of the proceeds received from the sales of substantially all of the investment in the Jubilee Trust and proceeds from the settlement of the Kodak Vending Placement Agreement, offset by purchases of property and equipment and cash used in connection with the Bayview acquisition.

Proceeds from financing activities for the year ended June 30, 2004 provided \$12,091,029 of funds, which were necessary to support cash used in operating activities. Proceeds of \$12,903,135 were realized from several private placement offerings of Common Stock, the exercise of Common Stock Warrants and the collection of Common Stock subscriptions receivable. These proceeds were reduced by payments of long-term debt and capital leases totaling \$812,106.

The Company has incurred losses since inception. Cumulative losses through June 30, 2004 amounted to approximately \$97,500,000. The Company has continued to raise capital through equity and debt offerings to fund operations.

The impact of the Bayview acquisition on cash flows for the year ended June 30, 2004 was a net cash outflow of approximately \$2,100,000 - \$1,330,000 of cash used in operations and \$728,000 invested in assets and liabilities connected with the purchase. The Bayview acquisition was structured such that it did not include the working capital required to support future operations.

During the year ended June 30, 2004, cash used in operating activities was approximately \$1,050,000 per month. These cash flows were impacted by working capital increases that were disproportionate to the increase in revenues. The Company believes it can improve its management of working capital, specifically as it relates to accounts receivable and inventory. Excluding the working capital requirements related to the Bayview acquisition (approximately \$1,200,000) and existing operations (approximately \$800,000), cash used in operating activities would have been approximately \$850,000 per month in fiscal year 2004. Using that as a basis for estimating cash requirements for the year ending June 30, 2005 (which assumes a static level of revenues), cash requirements for fiscal year 2005, including requirements for capital expenditures and repayment of long-term debt, would be approximately \$10,500,000.

As of June 30, 2004, the Company had approximately \$3,000,000 of cash and cash equivalents on hand, primarily as a result of proceeds from several private placements of Common Stock during fiscal year 2004.

On August 6, 2004, the Company entered into a Common Stock Purchase Agreement with an accredited investor to purchase shares of the Company's Common Stock, provided that the aggregate purchase price does not exceed \$7,500,000. Under this agreement, the Company has the right at any time to require the investor to purchase Common Stock from the Company at the lower of: (i) \$0.30 per share; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by the Company to the investor of notice of his obligation to purchase. The Company can require the investor to purchase shares under this agreement only if the shares have been registered by the Company for resale under the Act. 35,000,000 shares were registered, effective August 13, 2004. Additionally, the shares are only available for purchase for a period of one year from the date the shares are registered under the Act. During any calendar month, the investor cannot be required by the Company to purchase Common Stock for an aggregate purchase price in excess of \$700,000. Subsequent to year end, the Company issued 5,632,275 shares under this agreement for total gross proceeds of \$647,000.

Funding sources in place to meet the Company's cash requirements for the year ending June 30, 2005 are primarily comprised of approximately \$3,000,000 in cash and cash equivalents on hand as of June 30, 2004 and the proceeds that are available under the Common Stock Purchase Agreement detailed above. In order to provide funds for substantially all of the cash needs as described above, the market price for the Company's Common Stock will have to increase to \$0.23 per share and remain at that level, or higher, from a price of \$0.15 per share as of September 15, 2004, to maximize the proceeds available under the Common Stock Purchase Agreement, without registering additional shares for resale under the Act and increasing the number of authorized shares.

Other sources of capital include (i) future exercises of warrants for which there are "in the money" warrants with exercise prices below \$0.15 per share that would yield approximately \$800,000 (other warrants are outstanding with an exercise price of \$0.20 per share that would yield approximately \$4,300,000 if exercised) and (ii) the capital markets, which the Company believes are available to raise funding as needed given its current product offerings and the markets the Company addresses.

FUTURE REVENUE GUIDANCE

The Company is expecting and focused on increasing revenues over the long term. We believe that we should measure progress as it is achieved, instead of focusing on the establishment and attainment of public forecasts. Therefore, the Company will no longer provide any quarterly or annual revenue guidance or forecasts. Further, the Company will not update annual revenue forecasts for the 2005 fiscal year as the year progresses and any such forecasts are hereby disclaimed.

ITEM 7. FINANCIAL STATEMENTS

USA TECHNOLOGIES, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

USA Technologies, Inc.
Board of Directors and Shareholders

We have audited the accompanying consolidated balance sheets of USA Technologies, Inc. as of June 30, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the two years in the period ended June 30, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). 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 consolidated financial position of USA Technologies, Inc. at June 30, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the two years in the period ended June 30, 2004, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that USA Technologies, Inc. will continue as a going concern. As more fully described in Note 2 to the financial statements, the Company has an accumulated deficit and has incurred recurring operating losses. These conditions 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
September 10, 2004

USA TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS

| | JUNE 30 | |
|--|---------------|---------------|
| | 2004 | 2003 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,019,214 | \$ 2,384,455 |
| Accounts receivable, less allowance for uncollectible accounts of \$240,000 and \$65,000 in 2004 and 2003, respectively | 1,075,858 | 414,796 |
| Inventory | 1,707,684 | 457,900 |
| Prepaid expenses and other current assets | 234,448 | 201,383 |
| Subscriptions receivable | 300,000 | 1,013,400 |
| Investment | 68,636 | 904,049 |
| Assets held for sale | 46,200 | -- |
| | | |
| Total current assets | 6,452,040 | 5,375,983 |
| Property and equipment, net | 602,953 | 943,784 |
| Software development costs, net | -- | 998,660 |
| Intangibles, net | 10,831,832 | 2,591,500 |
| Goodwill | 7,985,208 | 7,945,580 |
| Other assets | 8,544 | 37,174 |
| | | |
| Total assets | \$ 25,880,577 | \$ 17,892,681 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,929,491 | \$ 2,266,156 |
| Accrued expenses | 1,569,368 | 2,720,743 |
| Current obligations under long-term debt | 240,764 | 830,674 |
| Convertible Senior Notes | 401,887 | 349,942 |
| | | |
| Total current liabilities | 5,141,510 | 6,167,515 |
| Convertible Senior Notes, less current portion | 6,617,987 | 7,808,469 |
| Long-term debt, less current portion | 12,418 | 224,614 |
| | | |
| Total liabilities | 11,771,915 | 14,200,598 |
| Shareholders' equity: | | |
| Preferred Stock, no par value: | | |
| Authorized shares--1,800,000 | | |
| Series A Convertible Preferred--Authorized shares - 900,000 | | |
| Issued and outstanding shares--522,742 and 524,492 at June 30, 2004 and 2003, respectively (liquidation preference of \$11,904,600 at June 30, 2004) | 3,702,856 | 3,715,246 |
| Common Stock, no par value: | | |
| Authorized shares--475,000,000 and 400,000,000 at June 30, 2004 and 2003, respectively | | |
| Issued and outstanding shares--351,654,131 and 218,741,042 at June 30, 2004 and 2003, respectively | 110,635,743 | 78,790,405 |
| Accumulated other comprehensive income | 32,249 | -- |
| Accumulated deficit | (100,262,186) | (78,813,568) |
| | | |
| Total shareholders' equity | 14,108,662 | 3,692,083 |
| | | |
| Total liabilities and shareholders' equity | \$ 25,880,577 | \$ 17,892,681 |
| | | |

See accompanying notes.

USA TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

| | YEAR ENDED JUNE 30 | |
|--|--------------------|-----------------|
| | 2004 | 2003 |
| Revenues: | | |
| Equipment sales | \$ 4,349,566 | \$ 1,034,427 |
| License and transaction fees | 977,651 | 1,373,573 |
| Product sales and other | 305,598 | 445,068 |
| Total revenues | 5,632,815 | 2,853,068 |
| Cost of sales (including amortization of software development costs) | 4,329,692 | 2,971,443 |
| Gross profit (loss) | 1,303,123 | (118,375) |
| Operating expenses: | | |
| General and administrative | 6,747,824 | 7,194,684 |
| Compensation | 10,071,354 | 4,973,210 |
| Depreciation and amortization | 1,632,330 | 1,251,716 |
| Loss on debt modification | 318,915 | 1,521,654 |
| Total operating expenses | 18,770,423 | 14,941,264 |
| Operating loss | (17,467,300) | (15,059,639) |
| Other income (expense): | | |
| Interest income | 40,789 | 18,691 |
| Gain (loss) on investment | 603,480 | (1,945,951) |
| Gain on contract settlement | 429,204 | -- |
| Interest expense: | | |
| Coupon or stated rate | (1,179,322) | (1,163,192) |
| Non-cash interest and amortization of debt discount | (3,853,029) | (3,815,408) |
| Total interest expense | (5,032,351) | (4,978,600) |
| Total other income (expense) | (3,958,878) | (6,905,860) |
| Net loss | (21,426,178) | (21,965,499) |
| Cumulative preferred dividends | (786,513) | (793,586) |
| Loss applicable to common shares | \$ (22,212,691) | \$ (22,759,085) |
| Loss per common share (basic and diluted) | \$ (0.08) | \$ (0.20) |
| Weighted average number of common shares outstanding (basic and diluted) | 288,476,158 | 111,790,358 |

See accompanying notes.

USA TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | SERIES A CONVERTIBLE PREFERRED STOCK | COMMON STOCK | SUBSCRIPTIONS RECEIVABLE | ACCUMULATED DEFICIT | TOTAL |
|---|--|---------------|-----------------------------|------------------------|--------------|
| Balance, June 30, 2002 | \$ 3,749,158 | \$ 56,588,503 | \$ (149,750) | \$(56,792,019) | \$ 3,395,892 |
| Conversion of 4,790 shares of Preferred Stock to 4,790 shares of Common Stock | (33,912) | 33,912 | -- | -- | -- |
| Conversion of \$56,050 of cumulative preferred dividends into 5,605 shares of Common Stock at \$10.00 per share | -- | 56,050 | -- | (56,050) | -- |
| Issuance of 5,749,442 shares of Common Stock for professional services | -- | 1,245,631 | 149,750 | -- | 1,395,381 |
| Exercise of 17,686,489 Common Stock Warrants at \$0.10 per share | -- | 1,768,650 | -- | -- | 1,768,650 |
| Issuance of 5,727,383 shares of Common Stock from the conversion of 12% Senior Notes | -- | 1,145,442 | -- | -- | 1,145,442 |
| Issuance of 2,467,225 shares of Common Stock from the conversion of \$243,000 of 9-3/4% debentures, and the related exercise of Common Stock Warrants at varying prices per share to purchase 7,206,893 shares of Common Stock, net of offering costs | -- | 873,000 | -- | -- | 873,000 |
| Issuance of 89,207,511 shares of Common Stock in connection with various Private Placement Offerings at varying prices per share | -- | 8,750,058 | -- | -- | 8,750,058 |
| Issuance of 2,315,000 shares of Common Stock in lieu of cash payments for interest on the Convertible Senior Notes and the issuance of 2,315,000 Common Stock Warrants | -- | 860,250 | -- | -- | 860,250 |
| Debt Discount relating to beneficial conversion feature on the various 12% Senior Notes | -- | 2,947,130 | -- | -- | 2,947,130 |
| Issuance of 8,031,516 shares of Common Stock in connection with the issuance of 12% Senior Notes | -- | 1,664,819 | -- | -- | 1,664,819 |
| Issuance of 15,000,000 shares of Common Stock for the investment in Jubilee | -- | 2,850,000 | -- | -- | 2,850,000 |
| Other | -- | 6,960 | -- | -- | 6,960 |
| Net loss and total comprehensive loss | -- | -- | -- | (21,965,499) | (21,965,499) |
| Balance, June 30, 2003 | \$ 3,715,246 | \$78,790,405 | \$ -- | \$(78,813,568) | \$ 3,692,083 |

See accompanying notes.

USA TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (CONTINUED)

| | SERIES A CONVERTIBLE PREFERRED STOCK | COMMON STOCK | ACCUMULATED OTHER COMPREHENSIVE INCOME | ACCUMULATED DEFICIT | TOTAL |
|--|--|----------------|---|------------------------|---------------|
| Issuance of 1,750 shares of Common Stock from the conversion of 1,750 shares of Preferred Stock | \$ (12,390) | \$ 12,390 | \$ -- | \$ -- | \$ -- |
| Stock from the conversion of cumulative preferred dividends at \$10.00 per share | -- | 22,440 | -- | (22,440) | -- |
| Exercise of 32,179,321 Common Stock Warrants and Options | -- | 2,800,472 | -- | -- | 2,800,472 |
| Issuance of 14,204,894 shares of Common Stock from the conversion of 12% Senior Notes | -- | 2,840,978 | -- | -- | 2,840,978 |
| Issuance of 1,615,727 shares of Common Stock in exchange for salaries and professional services | -- | 422,092 | -- | -- | 422,092 |
| Issuance of 10,500,000 shares of Common Stock to executive in connection with employment agreement | -- | 4,620,000 | -- | -- | 4,620,000 |
| Issuance of 53,177,869 shares of Common Stock from various private placement offerings at varying prices per share, less issuance costs of \$253,071 | -- | 9,389,263 | -- | -- | 9,389,263 |
| Issuance of 1,061,284 shares of Common Stock and related Common Stock Warrants in lieu of cash payment for interest on the 12% Senior Notes | -- | 478,496 | -- | -- | 478,496 |
| Debt discount relating to beneficial conversion feature on 12% Senior Notes | -- | 1,981,007 | -- | -- | 1,981,007 |
| Issuance of 20,170,000 shares of Common Stock in connection with the Bayview acquisition | -- | 9,278,200 | -- | -- | 9,278,200 |
| Comprehensive loss: | | | | | |
| Net loss | | | | (21,426,178) | (21,426,178) |
| Unrealized gain on investment | | | 32,249 | | 32,249 |
| Total comprehensive loss | | | | | (21,393,929) |
| Balance, June 30, 2004 | \$ 3,702,856 | \$ 110,635,743 | \$ 32,249 | \$(100,262,186) | \$ 14,108,662 |

See accompanying notes.

USA TECHNOLOGIES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

| | YEAR ENDED JUNE 30 | |
|--|--------------------|----------------|
| | 2004 | 2003 |
| | ----- | |
| OPERATING ACTIVITIES: | | |
| Net loss | \$(21,426,178) | \$(21,965,499) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Charges incurred in connection with the issuance of Common Stock, Common Stock Warrants and Senior Notes | 5,042,092 | 2,573,301 |
| Interest expense on the Senior Notes paid through the issuance of Common Stock | 478,496 | 860,250 |
| Interest amortization related to Senior Notes and Convertible Debentures | 3,374,533 | 2,955,158 |
| Depreciation | 469,418 | 1,119,536 |
| Amortization | 2,207,329 | 1,623,547 |
| Loss (gain) on sale of investment | (603,478) | 1,945,951 |
| Gain on contract settlement | (429,204) | -- |
| Loss on debt modification | 318,915 | 1,521,654 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (785,201) | (74,503) |
| Inventory | (1,249,784) | 419,914 |
| Prepaid expenses and other assets | (1,732) | (38,325) |
| Accounts payable | 843,680 | (759,337) |
| Accrued expenses | (796,342) | 589,454 |
| | ----- | |
| Net cash used in operating activities | (12,557,456) | (9,228,899) |
| INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (358,033) | (186,895) |
| Cash paid in connection with Bayview acquisition | (727,970) | -- |
| Cash received from the sale of investment | 1,471,140 | -- |
| Cash received from contract settlement | 674,649 | -- |
| Cash received from the sale of assets held for sale | 41,400 | -- |
| | ----- | |
| Net cash provided by (used in) investing activities | 1,101,186 | (186,895) |
| FINANCING ACTIVITIES: | | |
| Net proceeds from the issuance of Common Stock and the exercise of Common Stock Purchase Warrants and Options | 11,889,735 | 9,930,879 |
| Collection of subscriptions receivable | 1,013,400 | 35,000 |
| Net proceeds from issuance of Senior Notes and Convertible Debenture | -- | 1,833,841 |
| Repayment of long-term debt and Senior Notes | (812,106) | (557,441) |
| | ----- | |
| Net cash provided by financing activities | 12,091,029 | 11,242,279 |
| | ----- | |
| Net increase in cash and cash equivalents | 634,759 | 1,826,485 |
| Cash and cash equivalents at beginning of year | 2,384,455 | 557,970 |
| | ----- | |
| Cash and cash equivalents at end of year | \$ 3,019,214 | \$ 2,384,455 |
| | ===== | |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$ 1,098,727 | \$ 1,479,984 |
| | ===== | |
| Conversion of Convertible Preferred Stock to Common Stock | \$ 12,390 | \$ 33,912 |
| | ===== | |
| Conversion of Cumulative Preferred Dividends to Common Stock | \$ 22,440 | \$ 56,050 |
| | ===== | |
| Subscriptions receivable | \$ 300,000 | \$ 1,013,400 |
| | ===== | |
| Conversion of Senior Notes and Debenture to Common Stock | \$ 2,840,978 | \$ 1,388,442 |
| | ===== | |
| Issuance of Common Stock in connection with Bayview acquisition | \$ 9,278,200 | \$ -- |
| | ===== | |
| Beneficial conversion feature related to Senior Notes and Convertible Debenture | \$ 1,981,007 | \$ 2,947,130 |
| | ===== | |
| Purchase of investment through the issuance of Common Stock | \$ -- | \$ 2,850,000 |
| | ===== | |
| Issuance of Common Stock in connection with Senior Note Conversions | \$ -- | \$ 1,664,819 |
| | ===== | |

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004

1. BUSINESS

USA Technologies, Inc. ("USAT" or the "Company") was incorporated in the Commonwealth of Pennsylvania in January 1992. The Company offers a suite of networked devices and associated wireless non-cash payment, control/access management, remote monitoring and data reporting services, as well as energy management products. Our networked devices and associated services enable the owners and operators of everyday, stand-alone, distributed assets, such as vending machines, personal computers, copiers, faxes, kiosks and laundry equipment, the ability to remotely monitor, control and report on the results of these distributed assets, as well as the ability to offer their customers alternative cashless payment options. As a result of the acquisition of the assets of Bayview Technology Group, LLC ("Bayview") in July 2003(Note 4), our Company also manufactures and sells energy management products which reduce the power consumption of various equipment, such as refrigerated vending machines and glass front coolers, thus reducing the energy costs associated with operating this equipment.

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 to recorded asset values that might be necessary should the Company be unable to continue in existence. The Company has incurred recurring operating losses of \$21.4 million and \$21.9 million during each of the fiscal years ending June 30, 2004 and 2003, respectively, and recorded cumulative losses from its inception through June 30, 2004 amounting to approximately \$97.6 million. Losses have continued through September 2004 and are expected to continue during fiscal year 2005. The Company's ability to meet its future obligations is dependent upon the success of its products in the marketplace. Until the Company's products can generate sufficient operating revenues, the Company will be required to raise capital to meet its cash flow requirements. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management believes that actions presently being taken will allow for the Company to continue as a going concern. Such actions include the generation of revenues from operations, the issuance of Common Stock (Note 12), the exercise of outstanding Common Stock warrants, and raising funds in the capital markets, as needed.

CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Stitch Networks Corporation ("Stitch"). All significant intercompany accounts and transactions have been eliminated in consolidation.

2. ACCOUNTING POLICIES (CONTINUED)

RECLASSIFICATION

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

USE OF ESTIMATES

The preparation of the financial statements in conformity with U.S. 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 represent all highly liquid investments with original maturities of three months or less. Cash equivalents are comprised of certificates of deposit and a money market fund, of which \$80,000 is on deposit to support Automated Clearing House banking transactions and \$30,000 to support a letter of credit issued to a vendor as of June 30, 2004, and is therefore restricted as to use.

INVENTORY

Inventory, which principally consists of finished goods, components, and packaging materials, is stated at the lower of cost (first-in, first-out basis) or market.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized on the straight-line basis over the lesser of the estimated useful life of the asset or the respective lease term.

2. ACCOUNTING POLICIES (CONTINUED)

GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of cost over fair value of the net assets purchased in acquisitions. The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). Under FAS 142, goodwill is not amortized to earnings, but instead is subject to periodic testing for impairment. The Company tests goodwill for impairment using a two-step process. The first step screens for potential impairment, while the second step measures the amount of impairment. The Company uses a discounted cash flow analysis to complete the first step in this process. Testing for impairment is to be done at least annually and at other times if events or circumstances arise that indicate that impairment may have occurred. The Company has selected April 1 as its annual test date. The Company has concluded there has been no impairment of goodwill as a result of its testing on July 1, 2002 (the transitional test date upon adopting FAS 142), April 1, 2003 and April 1, 2004.

SOFTWARE DEVELOPMENT COSTS

The Company capitalizes software development costs pursuant to Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", after technological feasibility of the software is established and through the product's availability for general release to the Company's customers. All costs incurred in the research and development of new software and costs incurred prior to the establishment of technological feasibility are expensed as incurred. Amortization of software development costs commences when the product becomes available for general release to customers. Amortization of software development costs is calculated as the greater of the amount computed using (i) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues of that product or (ii) the straight-line method over the remaining estimated economic life of the product. The Company reviews the unamortized software development costs at each balance sheet date and, if necessary, will write down the balance to net realizable value if the unamortized costs exceed the net realizable value of the asset.

Software development costs related to the development of the multi-media e-Port product and related internal network were fully amortized during the year ended June 30, 2004. Accumulated amortization was \$5,326,186 and \$4,327,526 at June 30, 2004 and 2003, respectively. Amortization expense, reflected in cost of sales, was approximately \$999,000 and \$1,331,000 during the years ended June 30, 2004 and 2003, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

2. ACCOUNTING POLICIES (CONTINUED)

INVESTMENT

The Company accounts for investments in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Management determines the appropriate classifications of securities at the time of purchase and reevaluates such designation as of each balance sheet date. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported as a separate component of shareholders' equity in accumulated other comprehensive income. If the investment sustains an other-than-temporary decline in fair value, the investment is written down to its fair value by a charge to earnings.

IMPAIRMENT OF LONG LIVED ASSETS

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets" ("FAS 144"), the Company reviews its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amount of an asset or group of assets exceeds its net realizable value, the asset will be written down to its fair value. In the period when the plan of sale criteria of FAS 144 are met, long-lived assets are reported as held for sale, depreciation and amortization cease, and the assets are reported at the lower of carrying value or fair value less costs to sell. During the fourth quarter of fiscal year 2003, the Company reviewed certain long-lived assets (vending machines) and determined that such assets were impaired. These vending machines were used and intended for use in connection with the Company's program with Kodak to sell disposable cameras and film pursuant to the Kodak Vending Placement Agreement. Management determined that it was more likely than not that these vending machines would be disposed of before the end of their previously estimated useful lives. The estimated undiscounted cash flows for this group of assets was less than the carrying value of the related assets. As a result, the Company recorded a charge of approximately \$321,000 representing the difference between the fair value as determined from a quoted market price and the carrying value of the group of assets. Such amount is reflected in depreciation expense in the 2003 Consolidated Statement of Operations.

Effective December 31, 2003, the Kodak agreement was terminated (Note 14). As a result, the carrying value of the vending machines were further impaired and a charge of approximately \$367,000 was recorded as a component of the gain on contract settlement in the June 30, 2004 Consolidated Statement of Operations to reflect these assets at their realizable value. The remaining value of these vending machines is recorded as assets held for sale in the Consolidated Balance Sheet as of June 30, 2004.

2. ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses reported in the consolidated balance sheets equal or approximate fair value due to their short maturities. The fair value of the Company's Senior Notes and Long-Term Debt approximates book value as such notes are at market rates currently available to the Company.

CONCENTRATION OF CREDIT RISK

Financial instruments that subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains cash and cash equivalents with various financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions, and the Company's policy is designed to limit exposure to any one institution. The Company's accounts receivable are net of an allowance for uncollectible accounts. The Company does not require collateral or other security to support credit sales, but provides an allowance for uncollectible accounts based on historical experience and specifically identified risks. Accounts receivable are carried at fair value and charged off against the allowance for uncollectible accounts when management determines that recovery is unlikely and the Company ceases collection efforts. Approximately 39% and 57% of the Company's accounts receivable at June 30, 2004 and 2003, respectively, were concentrated with two customers. Approximately 13% and 35% of the Company's revenues for the years ended June 30, 2004 and 2003, respectively, were concentrated with one and two customers, respectively. The Company's customers are principally located in the United States.

REVENUE RECOGNITION

Revenue from the sale of equipment is recognized on the terms of freight-on-board shipping point, or upon installation and acceptance of the equipment if installation services are purchased for the related equipment. Transaction processing revenue is recognized upon the usage of the Company's cashless payment and control network. License fees for access to the Company's devices and network services are recognized on a monthly basis. Product revenues are recognized for the sale of products from Company owned vending machines when there is purchase and acceptance of product by the vending customer. The Company estimates an allowance for product returns at the date of sale.

2. ACCOUNTING POLICIES (CONTINUED)

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are expensed as incurred. Research and development expenses, which are included in general and administrative and compensation expense in the consolidated statements of operations, were approximately \$688,000 and \$1,505,000 for the years ended June 30, 2004 and 2003, respectively.

ACCOUNTING FOR STOCK OPTIONS

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), provides companies with a choice to follow the provisions of FAS 123 in determination of stock-based compensation expense or to continue with the provisions of APB No. 25, "Accounting for Stock Issued to Employees and Related Interpretations in Accounting for Stock-Compensation Plans" ("APB 25") and the related FASB Interpretation No. 44. The Company has elected to follow the provisions of APB 25. Under APB 25, if the exercise price of the Company's stock options granted to employees and directors equals or exceeds the market price of the underlying Common Stock on the date of grant, no compensation expense is recognized. All stock options granted by the Company have been at prices equal to the market price of the Company's Common Stock on the date of grant. Under FAS 123, the fair value of stock options is estimated at the date of grant using an option pricing model such as Black-Scholes and the value determined is amortized to expense over the option vesting period.

LOSS PER COMMON SHARE

Basic earnings per share is calculated by dividing income (loss) applicable to common shares by the weighted average common shares outstanding for the period. Diluted earnings per share is calculated by dividing income (loss) applicable to common shares by the weighted average common shares outstanding for the period plus the dilutive effect (unless such effect is anti-dilutive) of equity instruments. No exercise of stock options, purchase rights, stock purchase warrants, or the conversion of senior notes, debentures, preferred stock, or cumulative preferred dividends was assumed during the fiscal year 2004 or 2003 because the assumed exercise of these securities would be anti-dilutive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

3. INVESTMENT IN JUBILEE INVESTMENT TRUST, PLC

During the year ended June 30, 2003, the Company issued 15,000,000 shares of its Common Stock (\$2,850,000) for an investment in 1,870,091 shares in the Jubilee Investment Trust, PLC ("Jubilee"), a United Kingdom Investment Trust whose shares trade on the London Stock Exchange. The Company agreed not to sell the Jubilee shares for a period of 90 days from January 24, 2003 and to sell a maximum of 10% of the Jubilee shares during each month thereafter. Jubilee agreed not to sell the Company's shares of Common Stock for a period of two years from the date of issuance unless agreed to by the Company. As this investment declined in value below its cost basis for a period of six months or more as of June 30, 2003, the Company determined that the decline in the market value of this available for sale investment was "other than temporary" and, accordingly, the Company wrote down the investment to its fair value, realizing an impairment loss of \$1,945,951 during fiscal year 2003.

During fiscal year 2004, the Company sold 1,669,091 of the Jubilee shares for net proceeds of \$1,471,140 and realized a gain of \$603,480, with the cost of the securities calculated by the specific identification method. An unrealized gain of \$32,249 on the remaining shares held by the Company is reflected in shareholders' equity as accumulated other comprehensive income at June 30, 2004. The 70,000 remaining shares have been provided as a security deposit for the lease of the Company's corporate headquarters and are recorded at their fair value of \$68,636 at June 30, 2004.

4. ACQUISITIONS

BAYVIEW TECHNOLOGY GROUP, LLC

On July 11, 2003, the Company acquired substantially all of the assets of Bayview. Under the terms of the asset purchase agreement, the Company issued to Bayview 20,000,000 shares of its restricted Common Stock and cash of \$631,247 to settle an obligation of Bayview. The definitive agreement also provided for the Company to assume certain obligations under a royalty agreement expiring May 31, 2006. Approximately \$169,000 of royalty expense was recorded during fiscal year 2004 in connection with this agreement. In connection with this transaction, the Company also agreed to issue 170,000 shares of its restricted Common Stock to a consultant who provided certain services to the Company in connection with this acquisition.

The acquisition allows the Company to offer energy conservation products that reduce the power consumption of various types of equipment, such as vending machines, glass front coolers and other "always-on" appliances by allowing the equipment to operate in power saving mode when the full power mode is not necessary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

4. ACQUISITIONS (CONTINUED)

The acquisition cost of Bayview was \$10,030,894, which principally was comprised of the issuance of 20,000,000 shares of restricted Common Stock valued at \$9,200,000 and a cash payment of \$631,247. The value of the 20,000,000 shares of Common Stock was determined based on the average market price of the Company's Common Stock over the two-day period before and after the definitive agreement date of July 11, 2003. The purchase price also included acquisition related costs of \$199,647.

The following table summarizes the final purchase price allocation to reflect the fair values of the assets acquired and liabilities assumed at the date of acquisition.

| | | |
|------------------------|----|------------|
| Current assets | \$ | 7,628 |
| Property and equipment | | 244,704 |
| Intangible assets | | 9,449,000 |
| Goodwill | | 329,562 |
| | | ----- |
| Total assets acquired | \$ | 10,030,894 |
| | | ===== |

Of the \$9,449,000 of Bayview acquired intangible assets, \$7,424,000 was assigned to patents that are subject to amortization over a 10-year period, \$1,011,000 was assigned to a non-compete agreement that is subject to amortization over a 5-year period and \$1,014,000 was assigned to trademarks and trade names that are not subject to amortization.

The acquisition was accounted for using the purchase method and, accordingly, the results of operations of Bayview have been included in the accompanying consolidated statements of operations since the date of acquisition. Results of operations of the Company for year ended June 30, 2004 would not have been significantly different than reported had the acquisition taken place July 1, 2003 as the acquisition occurred on July 11, 2003. Pro-forma combined results for the year ended June 30, 2003 would have been as follows had the acquisition taken place July 1, 2002 - revenues of \$8,487,190; net loss of \$22,478,740; loss applicable to common shares of \$23,272,326; loss per common share (basic and diluted) of \$0.18.

STITCH NETWORKS CORPORATION

In connection with the acquisition of Stitch in May 2002, the Company determined that it would vacate office space previously occupied by Stitch. Accordingly, in connection with this acquisition, the Company accrued the remaining lease exit costs relating to the lease in the amount of approximately \$354,000 as part of the cost of purchasing Stitch. In November 2003, Stitch and the lessor of the office space reached an agreement that required Stitch to pay the lessor \$55,000 as consideration to release Stitch from any further obligations under the lease. In addition, a security deposit of approximately \$9,000 was retained by the lessor. Accordingly, the difference between estimated lease exit costs recorded in conjunction with the acquisition and actual consideration paid was recorded as a reduction of goodwill in the amount of \$290,000 during the year ended June 30, 2004.

USA TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2004

4. ACQUISITIONS (CONTINUED)

Amortization expense relating to all acquired intangible assets was \$1,208,668 and \$292,000 during the years ended June 30, 2004 and 2003, respectively. The intangible asset balance and related accumulated amortization consisted of the following:

| | JUNE 30, 2004 | | |
|-----------------------|-----------------------|--------------------------|--------------------|
| | GROSS CARRYING AMOUNT | ACCUMULATED AMORTIZATION | NET CARRYING VALUE |
| Intangible assets: | | | |
| Trademarks | \$ 2,064,000 | \$ (223,125) | \$ 1,840,875 |
| Patents | 9,294,000 | (1,117,822) | 8,176,178 |
| Non-Compete agreement | 1,011,000 | (196,221) | 814,779 |
| Total | \$12,369,000 | \$(1,537,168) | \$ 10,831,832 |

| | June 30, 2003 | | |
|--------------------|-----------------------|--------------------------|--------------------|
| | GROSS CARRYING AMOUNT | ACCUMULATED AMORTIZATION | NET CARRYING VALUE |
| Intangible assets: | | | |
| Trademark | \$ 1,050,000 | \$ (118,125) | \$ 931,875 |
| Patents | 1,870,000 | (210,375) | 1,659,625 |
| Total | \$ 2,920,000 | \$ (328,500) | \$ 2,591,500 |

At June 30, 2004, the expected amortization of the intangible assets is as follows: \$1,200,000 per year in fiscal year 2005 through fiscal year 2008, \$1,000,000 per year in fiscal year 2009 through fiscal year 2012, \$740,000 in fiscal year 2013 and \$22,000 in fiscal year 2014. The weighted average useful life of these intangible assets is 9.55 years at June 30, 2004.

USA TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2004

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | USEFUL LIVES | JUNE 30 | |
|---|-----------------|--------------|--------------|
| | | 2004 | 2003 |
| Computer equipment and purchased software | 3 years | \$ 2,206,759 | \$ 1,931,912 |
| Vending machines and related components | 7 years | 4,427 | 688,284 |
| Control systems | 3 years | 479,530 | 980,759 |
| Furniture and equipment | 5-7 years | 745,341 | 532,570 |
| Leasehold improvements | Lease term | 59,575 | 16,140 |
| Vehicles | 5 years | -- | 10,258 |
| | | ----- | ----- |
| | | 3,495,632 | 4,159,923 |
| Less accumulated depreciation | | (2,892,679) | (3,216,139) |
| | | ----- | ----- |
| | | \$ 602,953 | \$ 943,784 |
| | | ===== | ===== |

Assets under capital lease totaled approximately \$113,000 and \$180,000 as of June 30, 2004 and 2003, respectively. Capital lease amortization of approximately \$20,000 and \$46,000 is included in depreciation expense for the years ended June 30, 2004 and 2003, respectively.

6. ACCRUED EXPENSES

Accrued expenses consist of the following:

| | JUNE 30 | |
|--|--------------|--------------|
| | 2004 | 2003 |
| Accrued compensation and related sales commissions | \$ 444,302 | \$ 250,808 |
| Accrued interest | 376,350 | 291,315 |
| Accrued professional fees | 192,633 | 650,974 |
| Accrued taxes and filing fees | 108,362 | 94,529 |
| Accrued consulting fees | 104,438 | 662,010 |
| Accrued rent | 66,662 | 15,572 |
| Advanced customer billings | 58,811 | 62,540 |
| Accrued lease termination payments, net | -- | 344,934 |
| Accrued software license and support costs | -- | 125,385 |
| Accrued other | 217,810 | 222,676 |
| | ----- | ----- |
| | \$ 1,569,368 | \$ 2,720,743 |
| | ===== | ===== |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

7. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2004 and 2003, the Company incurred approximately \$391,000 and \$305,000, respectively, in connection with legal services provided by a member of the Company's Board of Directors. At June 30, 2004 and 2003, approximately \$32,000 and \$22,000, respectively, of the Company's accounts payable and accrued expenses were due to this Board member. During the years ended June 30, 2004 and 2003, certain Board members participated in various debt or equity offerings of the Company for total investments of approximately \$266,250 and \$661,500, respectively.

Stitch had purchased parts and services from Dixie-Narco, Inc. ("Dixie"), an affiliate of a shareholder (Maytag Holdings, a subsidiary of Maytag Inc.) of the Company. There were purchases from Dixie of \$201,000 during the year ended June 30, 2003 and approximately \$130,000 in payables to Dixie included in accounts payable in the accompanying June 30, 2003 consolidated balance sheet. There were no such purchases from Dixie during the year ended June 30, 2004 and no payables to Dixie at June 30, 2004.

8. LONG-TERM DEBT

Long-term debt consists of the following:

| | JUNE 30 | |
|--|------------|------------|
| | 2004 | 2003 |
| Bank facility | \$ 170,987 | \$ 828,466 |
| Working capital loans | 46,765 | 166,765 |
| Other, including capital lease obligations | 35,430 | 60,057 |
| | 253,182 | 1,055,288 |
| Less current portion | 240,764 | 830,674 |
| | \$ 12,418 | \$ 224,614 |
| | ===== | ===== |

The bank facility (the "Facility") was assumed as part of the fiscal year 2002 acquisition of Stitch and was used to fund the purchase of vending machines placed at locations where Kodak film products were sold. Borrowings were made from time to time under the Facility, with repayment schedules set at the time of each borrowing, including equal monthly payments over 36 months and an interest rate based upon 495 basis points over the three year U.S. Treasury Notes. The Company granted the bank a security interest in the vending machines. Repayment of principal was insured by a Surety Bond issued by a third-party insurer in exchange for an initial fee paid by the Company. The Facility matures during the year ending June 30, 2005, due to the termination of the vending placement agreement and the sale of the vending machines (Note 14).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

8. LONG-TERM DEBT (CONTINUED)

The Company also assumed working capital loans in connection with of the Stitch acquisition. These loans are secured by certain assets of Stitch and bear interest at 6.75% per annum. The working capital loans were payable on July 8, 2002, however, during fiscal year 2003, the bank extended the due date on these loans on several occasions under forbearance agreements. On November 6, 2003, the Company reached an agreement with the bank to repay these loans in monthly installments through October 2004.

9. INCOME TAXES

At June 30, 2004 and 2003, the Company had net operating loss carryforwards of approximately \$84,097,000 and \$76,211,000, respectively, to offset future taxable income expiring through approximately 2024. In addition, the Company had a capital loss carryforward of approximately \$1,264,000 as of June 30, 2004 that expires in 2009. At June 30, 2004 and 2003, the Company recorded a net deferred tax asset of approximately \$34,365,000 and \$29,771,000, respectively, which was reduced by a valuation allowance of the same amount as the realization of the deferred tax asset is not likely, principally due to the lack of earnings history.

The timing and extent to which the Company can utilize future tax deductions in any year may be limited by provisions of the Internal Revenue Code regarding changes in ownership of corporations. Stitch had net operating loss carryforwards of approximately \$11,800,000 at the acquisition date. Such net operating loss carryforwards are limited under the same provisions as to the amount available to offset future taxable income and to the extent used in any given year, will result in decreases to goodwill as opposed to income tax expense.

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 | |
|---|---------------|---------------|
| | 2004 | 2003 |
| Deferred tax assets: | | |
| Net operating loss and capital loss carryforwards | \$ 32,447,000 | \$ 28,431,000 |
| Deferred research and development costs | 548,000 | 730,000 |
| Software development costs | 1,513,000 | 1,324,000 |
| Other | 790,000 | 338,000 |
| | ----- | ----- |
| | 35,298,000 | 30,823,000 |
| Deferred tax liabilities: | | |
| Intangibles | (933,000) | (1,052,000) |
| | ----- | ----- |
| | 34,365,000 | 29,771,000 |
| Valuation allowance | (34,365,000) | (29,771,000) |
| | ----- | ----- |
| Deferred tax assets, net | \$ -- | \$ -- |
| | ===== | ===== |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

10. SENIOR NOTES

The Company has issued five series of Senior Notes each with an annual interest rate of 12% and are convertible into shares of the Company's Common Stock. The Senior Notes were scheduled to mature on December 31, 2003 ("2003 Senior Notes"), December 31, 2004 ("2004 Senior Notes"), December 31, 2005 ("2005 Senior Notes"), December 31, 2006 ("2006 Senior Notes"), and December 31, 2007 ("2007 Senior Notes").

The 2003 Senior Notes were issued pursuant to a private placement offering authorized during the year ended June 30, 2001 that included the issuance of 2,000 shares of Common Stock for each \$10,000 of face amount of notes issued. The 2003 Senior Notes were convertible into shares of Common Stock at \$1.25 per share at any time through December 31, 2003. The fair value of the Common Stock issued and the intrinsic value of the beneficial conversion feature associated with the 2003 Senior Notes created debt discount that was allocated to equity and was amortized to interest expense through December 31, 2003.

The 2004 Senior Notes were issued pursuant to a private placement offering authorized during the year ended June 30, 2002. The 2004 Senior Notes are convertible into shares of Common Stock at \$.40 per share at any time through December 31, 2004. Certain shareholders of the Company who held warrants to purchase shares of Common Stock exercisable at \$.50 per share were offered the opportunity to cancel those warrants and receive an equivalent number of new warrants exercisable at \$.10 per share if they invested in the 2004 Senior Note offering. The fair value of the new warrants issued and the intrinsic value of the beneficial conversion feature associated with the 2004 Senior Notes created debt discount that was allocated to equity and is being amortized to interest expense through December 31, 2004.

The 2005 Senior Notes were issued pursuant to a private placement offering authorized during the year ended June 30, 2002 that included the issuance of 20,000 shares of Common Stock for each \$10,000 of face amount of notes issued. The 2005 Senior Notes are convertible into shares of Common Stock at \$.20 per share at any time through December 31, 2005. The fair value of the Common Stock issued and the intrinsic value of beneficial conversion feature associated with the 2005 Senior Notes created debt discount that was allocated to equity and is being amortized to interest expense through December 31, 2005. During the years ended June 30, 2004 and 2003, \$514,359 and \$489,608, respectively, of the 2005 Senior Notes converted into 2,571,797 and 2,448,215 shares of Common Stock, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

10. SENIOR NOTES (CONTINUED)

In March 2003, the Company granted to the holders of the 2003 Senior Notes and 2004 Senior Notes the right to extend the maturity date of these Senior Notes to December 31, 2006 and December 31, 2007, respectively, in exchange for reducing the conversion rates from \$1.25 to \$0.20 per share for the 2003 Senior Notes and from \$0.40 to \$0.20 per share for the 2004 Senior Notes. This offer expired on December 31, 2003. During the years ended June 30, 2004 and 2003, Senior Note holders agreed to exchange an aggregate of \$2,303,953 and \$6,911,397, respectively, of 2003 Senior Notes and 2004 Senior Notes for new notes maturing in 2006 and 2007. The exchange of the 2003 Senior Notes and 2004 Senior Notes to the 2006 Senior Notes and 2007 Senior Notes was deemed a significant modification of the terms of the Senior Notes and, accordingly, the exchanged 2003 Senior Notes and 2004 Senior Notes have been extinguished. The unamortized debt discount and other issuance costs remaining on the 2003 Senior Notes and 2004 Senior Notes exchanged and extinguished were expensed (\$318,915 and \$1,521,654 for the years ended June 30, 2004 and 2003, respectively) and have been reported as a loss on debt modification in the Consolidated Statements of Operations.

During fiscal year 2003 and 2004, the Company's share price was often greater than the conversion price at times when Senior Note holders exchanged their 2003 and 2004 Senior Notes for 2006 and 2007 Senior Notes. The intrinsic value of this beneficial conversion feature created debt discount that was allocated to equity and is being amortized to interest expense through December 31, 2006 and 2007, respectively.

During the years ended June 30, 2004 and 2003, \$1,478,000 and \$332,500, respectively, of the 2006 Senior Notes were converted into 7,390,000 and 1,662,500 shares of Common Stock, respectively, and \$848,619 and \$323,334, respectively, of the 2007 Senior Notes were converted into 4,243,097 and 1,616,668 shares of Common Stock, respectively.

USA TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

10. SENIOR NOTES (CONTINUED)

A summary of the activity for the Senior Notes for the years ended June 30, 2004 and 2003 follows:

| | Senior Notes Maturing December 31, | | | | |
|---|------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 2003 (2003 Senior Notes) | 2004 (2004 Senior Notes) | 2005 (2005 Senior Notes) | 2006 (2006 Senior Notes) | 2007 (2007 Senior Notes) |
| Face amount of Senior Notes | | | | | |
| Balance, June 30, 2002 | \$ 5,034,000 | \$ 4,814,593 | \$ 444,083 | \$ -- | \$ -- |
| Issued (rescinded) for cash and services | -- | (172,091) | 3,571,675 | -- | -- |
| 2003 and 2004 Senior Notes exchanged | | | | | |
| for 2006 and 2007 Senior Notes | (3,548,000) | (3,363,397) | -- | 3,548,000 | 3,363,397 |
| Conversions to Common Stock | -- | -- | (489,608) | (332,500) | (323,334) |
| Balance, June 30, 2003 | 1,486,000 | 1,279,105 | 3,526,150 | 3,215,500 | 3,040,063 |
| Repayment | (10,000) | -- | -- | -- | -- |
| 2003 and 2004 Senior Notes exchanged | | | | | |
| for 2006 and 2007 Senior Notes | (1,476,000) | (827,953) | -- | 1,476,000 | 827,953 |
| Conversions to Common Stock | -- | -- | (514,359) | (1,478,000) | (848,619) |
| Balance, June 30, 2004 | \$ -- | \$ 451,152 | \$ 3,011,791 | \$ 3,213,500 | \$ 3,019,397 |
| Debt discount and other issuance costs | | | | | |
| Unamortized costs at June 30, 2002 | \$ (750,295) | \$(2,928,567) | \$ (323,988) | \$ -- | \$ -- |
| Debt discount (created) reduced for | | | | | |
| (issuances) rescissions | (2) | 169,365 | (2,933,392) | (1,287,749) | (621,459) |
| Amortization and write-off of unamortized | | | | | |
| costs upon conversions to Common | | | | | |
| Stock | 448,934 | 1,004,748 | 1,104,157 | 183,580 | 24,607 |
| Loss on modification for exchanges of | | | | | |
| 2003 and 2004 Senior Notes for 2006 | | | | | |
| and 2007 Senior Notes | 221,130 | 1,300,524 | -- | -- | -- |
| Unamortized costs at June 30, 2003 | (80,233) | (453,930) | (2,153,223) | (1,104,169) | (596,852) |
| Debt discount from issuances | -- | -- | -- | (1,155,475) | (825,532) |
| Amortization and write-off of unamortized | | | | | |
| costs upon conversions to Common | | | | | |
| Stock | 32,803 | 133,180 | 1,052,231 | 1,329,255 | 827,064 |
| Loss on modification for exchanges of | | | | | |
| 2003 and 2004 Senior Notes for 2006 | | | | | |
| and 2007 Senior Notes | 47,430 | 271,485 | -- | -- | -- |
| Unamortized costs at June 30, 2004 | \$ -- | \$ (49,265) | \$(1,100,992) | \$ (930,389) | \$ (595,320) |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

10. SENIOR NOTES (CONTINUED)

| | | Senior Notes Maturing December 31, | | | | |
|---|--|------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | | 2003 | 2004 | 2005 | 2006 | 2007 |
| | | (2003 Senior Notes) | (2004 Senior Notes) | (2005 Senior Notes) | (2006 Senior Notes) | (2007 Senior Notes) |
| Senior Notes reflected in the Consolidated Balance Sheet: | | | | | | |
| June 30, 2003 | | | | | | |
| Face amount | | \$ 1,486,000 | \$ 1,279,105 | \$ 3,526,150 | \$ 3,215,500 | \$ 3,040,063 |
| Unamortized costs | | (80,233) | (453,930) | (2,153,223) | (1,104,169) | (596,852) |
| | | \$ 1,405,767 | \$ 825,175 | \$ 1,372,927 | \$ 2,111,331 | \$ 2,443,211 |
| June 30, 2004 | | | | | | |
| Face amount | | \$ -- | \$ 451,152 | \$ 3,011,791 | \$ 3,213,500 | \$ 3,019,397 |
| Unamortized costs | | -- | (49,265) | (1,100,992) | (930,389) | (595,320) |
| | | \$ | 401,887 | \$ 1,910,799 | \$ 2,283,111 | \$ 2,424,077 |

During the year ended June 30, 2003 and through December 31, 2003, the holders of the Senior Notes had the right to purchase shares of the Company's Common Stock at \$0.20 per share using quarterly interest payments that were due in lieu of a cash payment of the interest. Additionally, for each share purchased, the note holder was entitled to receive a warrant to purchase one share of the Company's Common Stock at \$0.20 per share exercisable at any time through June 30, 2004 (extended to August 30, 2004). For the years ended June 30, 2004 and 2003, 1,061,284 and 2,315,000 shares of Common Stock, respectively, were issued (along with an identical number of warrants) for payment of interest due of \$212,238 and \$448,647, respectively. The fair value of the warrants issued and the beneficial conversion feature related to the \$0.20 per share rate used to convert the interest to shares of Common Stock totaled \$266,258 and \$411,603 for the years ended June 30, 2004 and 2003, respectively, and have been recorded as additional interest expense.

During the year ended June 30, 2002, the Company executed a Securities Purchase Agreement with an investment company for the purchase of \$325,000 (as amended) of a 9.75% Convertible Debenture (the Debenture) due August 2004. Interest on the Debenture was payable monthly in arrears and the Debenture was convertible at a price equal to the lesser of \$1.00 or 72% (80% prior to June 18, 2002) of the lowest closing bid price of the Company's Common Stock during the 20 day period prior to the conversion. At the time of conversion, the Company issued to the Debenture holder warrants to purchase an amount of Common Stock equal to ten times the number of shares issued upon the conversion of the Debenture. The warrants were exercisable at the same conversion price as the Debenture. During the year ended June 30, 2003 the investment company converted the remaining \$243,000 of the Debenture, resulting in the issuance of 2,467,225 shares of Common Stock. The investment company also exercised warrants resulting in the issuance of 17,465,469 and 7,206,893 shares of Common Stock and generating net cash proceeds of \$1,591,296 and \$630,000 during the years ended June 30, 2004 and 2003, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

11. PREFERRED STOCK

The authorized Preferred Stock 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 one vote and is convertible at any time into one share of Common Stock. Each share of Common Stock entitles the holder to one voting right. Series A Preferred Stock provides for an annual cumulative dividend of \$1.50 per share payable to the shareholders of record in equal parts on February 1 and August 1 of each year.

Cumulative unpaid dividends at June 30, 2004 and 2003 amounted to \$6,677,180 and \$5,913,107, respectively. Cumulative unpaid dividends are convertible into common shares at \$10.00 per common share at the option of the shareholder. During the years ended June 30, 2004 and 2003, certain holders of the Preferred Stock converted 1,750 and 4,790 shares, respectively, into 1,750 and 4,790 shares of Common Stock, respectively. Certain of these shareholders also converted cumulative preferred dividends of \$22,440 and \$56,050, respectively, into 2,244 and 5,605 shares of Common Stock during the years ended June 30, 2004 and 2003, 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. No such redemption has occurred as of June 30, 2004. 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.

12. COMMON STOCK

The Company's Board of Directors has authorized various Common Stock private placement offerings. Activity for these offerings during the years ended June 30, 2004 and 2003 is as follows:

- o The 2004-A Private Placement Offering was authorized during fiscal year 2004 for the issuance of common stock at \$0.15 per share. During the year ended June 30, 2004, there were 28,290,833 shares issued generating net proceeds of \$4,207,080. Included in this amount are subscriptions receivable of \$300,000 at June 30, 2004, which were collected by the Company during July 2004. Participants in the offering were granted one warrant to purchase shares of Common Stock for every two shares of Common Stock purchased and are exercisable at \$0.20 per share through December 31, 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

12. COMMON STOCK (CONTINUED)

- o The 2003-A Private Placement Offering was authorized during fiscal year 2003 for the issuance of common stock at \$0.10 per share. During the years ended June 30, 2004 and 2003, there were 4,377,036 and 78,636,082 shares, respectively, issued generating net proceeds of \$432,754 and \$7,792,133, respectively. The Company also issued 695,000 and 1,854,390 shares under this offering during the years ended June 30, 2004 and 2003, respectively, for services rendered by consultants amounting to \$185,000 and \$397,889, respectively.
- o During the year ended June 30, 2004, 20,010,000 shares of Common Stock were issued to accredited investors at \$0.25 per share in four private placement offerings generating net proceeds of \$5,002,500.
- o During the year ended June 30, 2003, 10,571,429 shares of Common Stock were issued to accredited investors at per share prices ranging from \$0.07 to \$0.12 in five private placement offerings generating net proceeds of \$957,925. These investors were also granted warrants in connection with these private placement offerings to purchase 18,892,858 shares of Common Stock at per share prices ranging from \$0.07 to \$0.15 and expiring from May 2003 to October 2007. None of these warrants were exercised during the year ended June 30, 2003.

During the year ended June 30, 2004, the Company's Board of Directors granted additional warrants to purchase shares of Common Stock to Senior Note holders who chose to receive shares of Common Stock in lieu of being paid cash for interest on their notes. The grant was one additional warrant for each warrant previously granted in conjunction with receiving shares for interest and totaled warrants to purchase 3,662,481 shares of Common Stock at \$0.20 per share expiring on December 31, 2004.

During the year ended June 30, 2003, the Company's Board of Directors granted warrants to purchase shares of Common Stock to the holders of all Senior Notes at the time of grant. The grant equaled 75% of the face amount of the Senior Notes and totaled 10,306,026 warrants exercisable at \$0.10 per share through October 31, 2003. An additional warrant was granted for each of the initial warrants exercised on the same terms and as a result, an additional 7,943,384 warrants to purchase Common Stock were granted.

During the year ended June 30, 2004, warrants and stock options were exercised to purchase 32,179,321 shares of Common Stock at share prices ranging from \$0.07 to \$0.20, generating proceeds of \$2,800,472. During the year ended June 30, 2003, warrants were exercised to purchase 17,686,489 shares of Common Stock at \$0.10 per share, generating proceeds of \$1,768,651.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

12. COMMON STOCK (CONTINUED)

In July 2003, the Company and the Company's Chief Executive Officer ("CEO") amended the terms of his Executive Employment Agreement (expiring June 2005). Under the terms of the previous Executive Employment Agreement, the CEO would have been granted seven percent (non-dilutive) of all the then issued and outstanding shares of the Company's Common Stock in the event a "USA Transaction" (as defined) occurs, which among other events includes a change in control of the Company. The amended terms of the Executive Employment Agreement, eliminates the seven percent (non-dilutive) right to receive Common Stock upon a "USA Transaction" and granted the CEO an aggregate of 14,000,000 shares of Common Stock (subject to adjustment for stock splits or combinations) in the event a "USA Transaction" occurs. In exchange for the amendment of these terms, the Company issued the CEO 10,500,000 shares of its Common Stock valued at \$4,620,000 or \$0.44 per share representing the quoted market price of the Company's Common Stock on the date the amendment was entered into and the shares were granted. In connection with this amendment, the CEO also entered into a lock-up agreement pursuant to which he can not sell 2,500,000 of these shares for a one-year period and 8,000,000 of these shares for a two-year period. The CEO is not required to pay any additional consideration for these shares of Common Stock. At the time of a "USA Transaction", all of the 14,000,000 shares are automatically deemed to be issued and outstanding, and will be entitled to be treated as any other issued and outstanding shares of Common Stock. These shares are irrevocable and fully vested, have no expiration date, and are not affected by the termination of the CEO for any reason whatsoever.

In addition to the shares issued to the CEO, there were 920,727 and 3,895,052 shares of Common Stock issued to certain employees and officers for services and for professional services during the years ended June 30, 2004 and 2003, respectively. The value of these shares was based upon the fair value of the Company's Common Stock on the dates the shares were granted and totaled \$237,040 and \$847,742 for the years ended June 30, 2004 and 2003, respectively.

During the year ended June 30, 2004, 500,000 shares of Common Stock were issued to an accredited investor as settlement resulting from a non-registration event as defined under the subscription agreement dated November 4, 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

12. COMMON STOCK (CONTINUED)

A Common Stock purchase agreement with an accredited investor was initially executed in June 2004 and then replaced in August 2004 with a new agreement (the "Common Stock Agreement"). Pursuant to the Common Stock Agreement, the investor agreed to purchase shares of the Company's Common Stock, provided that the aggregate purchase price does not exceed \$7,500,000. Under the Common Stock Agreement, the Company has the right at any time to require the investor to purchase Common Stock from the Company at the lower of: (i) \$0.30 per share; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by the Company to the investor of notice of his obligation to purchase. The Company can require the investor to purchase shares under the Common Stock Agreement only if the shares have been registered by the Company for resale under the Act. Such shares were registered effective August 13, 2004. Additionally, the shares are only available for purchase for a period of one year from the date the shares are registered under the Act. During any calendar month, the investor cannot be required by the Company to purchase Common Stock for an aggregate purchase price in excess of \$700,000. Although the Company has registered 35,000,000 shares for resale by the investor, the Company has the right in the future, if necessary, to register additional shares in order to ensure that a sufficient number of shares are available for purchase by the investor. The Company has agreed to pay the investor a due diligence fee of \$45,000 in connection with this transaction. Subsequent to year end, the Company issued 5,632,275 shares of Common Stock under the Common Stock Agreement for total gross proceeds of \$647,000.

As of June 30, 2004, the Company has reserved shares of Common Stock for future issuance for the following:

| | |
|---|------------|
| Exercise of Common Stock Options | 1,897,472 |
| Exercise of Common Stock Warrants | 33,457,191 |
| Conversions of Preferred Stock and cumulative Preferred Stock dividends | 1,190,460 |
| Conversions of Senior Notes | 47,351,320 |
| | ----- |
| Total shares reserved for future issuance | 83,896,443 |
| | ===== |

13. COMMON STOCK WARRANTS AND OPTIONS

Common Stock Warrant activity for the years ended June 30, 2004 and 2003 was as follows:

| | WARRANTS |
|------------------------------|--------------|
| | ----- |
| Outstanding at June 30, 2002 | 6,839,820 |
| Issued | 76,286,145 |
| Exercised | (18,894,241) |
| Cancelled | (2,104,000) |
| | ----- |
| Outstanding at June 30, 2003 | 62,127,724 |
| Issued | 18,873,932 |
| Exercised | (32,060,459) |
| Cancelled | (15,484,006) |
| | ----- |
| Outstanding at June 30, 2004 | 33,457,191 |
| | ===== |

USA TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2004

13. COMMON STOCK WARRANTS AND OPTIONS (CONTINUED)

All Common Stock warrants outstanding as of June 30, 2004 were exercisable. The following table shows exercise prices and expiration dates for warrants outstanding as of June 30, 2004:

| WARRANTS OUTSTANDING | EXERCISE PRICE PER SHARE | EXPIRATION DATE |
|-------------------------|-----------------------------|-------------------|
| 3,600,607 | \$0.20 | August 30, 2004 |
| 2,500,000 | \$0.10 | December 22, 2004 |
| 17,807,898 | \$0.20 | December 31, 2004 |
| 75,000 | \$1.25 | June 30, 2006 |
| 7,142,858 | \$0.07 | October 26, 2007 |
| 750,000 | \$0.07 | November 15, 2007 |
| 1,200,000 | \$0.91 | August 29, 2010 |
| 377,927 | \$1.00 | April 24, 2011 |
| 2,901 | \$1.03 | April 30, 2011 |
| ----- | | |
| 33,457,191 | | |
| ===== | | |

During the years ended June 30, 2004 and 2003, the Company's Board of Directors amended the terms of certain outstanding Common Stock Warrants whereby the exercise price was reduced and the expiration dates were extended. The above table reflects the status of the warrants as of June 30, 2004.

The Company's Board of Directors has granted options to employees and Board members to purchase shares of Common Stock at prices that were at or above fair market value on the dates the options were granted. The option term and vesting schedule were established by the contracts under which the options were granted.

In April 2004, the Company's Board of Directors established and authorized the 2004-A Stock Compensation Plan for use in compensating employees, directors and consultants through the issuance of shares of Common Stock of the Company. There were 500,000 shares authorized under the Plan. As of June 30, 2004 there were 90,727 shares issued under the Plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

13. COMMON STOCK WARRANTS AND OPTIONS (CONTINUED)

Common Stock Option activity during the years ended June 30, 2004 and 2003 was as follows:

| | OPTIONS OUTSTANDING | EXERCISE PRICE PER SHARE |
|------------------------------|------------------------|-----------------------------|
| Outstanding at June 30, 2002 | 5,290,485 | \$0.165-\$5.00 |
| Canceled or expired | (2,383,000) | \$0.40-\$5.00 |
| Outstanding at June 30, 2003 | 2,907,485 | \$0.165-\$2.50 |
| Granted | 300,000 | \$0.30 |
| Exercised | (223,862) | \$0.165 |
| Canceled or expired | (1,086,151) | \$0.165-\$2.50 |
| Outstanding at June 30, 2004 | 1,897,472 | \$0.165-\$2.00 |

The following table shows exercise prices and the weighted average remaining contractual life for options outstanding as of June 30, 2004. All Common Stock Options outstanding as of June 30, 2004 were exercisable except for the options granted at an exercise price of \$.30 per share, none of which were exercisable as of June 30, 2004.

| OPTIONS OUTSTANDING | EXERCISE PRICE PER SHARE | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS) |
|------------------------|-----------------------------|--|
| 1,465,805 | \$0.165 | 2.92 |
| 300,000 | \$0.30 | 2.96 |
| 125,000 | \$1.00 | 1.67 |
| 6,667 | \$2.00 | 2.00 |
| ----- | | |
| 1,897,472 | | |
| ===== | | |

As there were no stock options granted during the year ended June 30, 2003 and all options granted through June 30, 2002 were vested as of that date, pro-forma net loss and pro-forma net loss per common share under FAS 123 for the year ended June 30, 2003 would be the same as reported by the Company under APB 25.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

13. COMMON STOCK WARRANTS AND OPTIONS (CONTINUED)

During the year ended June 30, 2004, stock options were granted to one individual to purchase 300,000 shares of Common Stock of the Company at \$0.30 per share. The pro-forma disclosures required by FAS 123 have not been included for June 30, 2004 as the fair value of options granted for the year ended June 30, 2004 were not considered to be material. The fair value of the stock options granted, \$0.16, was estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions.

| | |
|---------------------------------|-------|
| Dividend yield | 0% |
| Expected stock price volatility | 0.971 |
| Risk-free interest rate | 4.0% |
| Expected life, in years | 3 |

14. TERMINATION OF KODAK VENDING PLACEMENT AGREEMENT

The Company's wholly owned subsidiary, Stitch, entered into a vending placement agreement whereby Stitch agreed to purchase film and cameras directly from Eastman Kodak Company and vending machines from a supplier. Stitch placed the vending machines at numerous locations throughout the United States under agreements negotiated with the location owners and derived revenues amounting to \$358,484 and \$1,092,167 for the years ended June 30, 2004 and 2003, respectively.

During 2003, Stitch alleged that the supplier and another party to the vending agreement breached the vending agreement and the supplier and the other party to the vending agreement alleged that Stitch had breached the vending agreement. Effective December 31, 2003, the parties finalized a settlement of this matter which resulted in the termination of the vending agreement. Under the settlement agreement, the Company received a payment from Kodak of approximately \$675,000. The agreement also provides for the Company to receive payments of \$300 per vending machine from the supplier of the vending machines, as the machines are pulled from service at the supplier's sole cost and expense. Upon receipt of the \$300 per machine, title to the vending machine transfers from Stitch to the supplier. Through June 30, 2004, the Company has received approximately \$41,400 for these machines. The agreement also provided that the supplier cancel a \$124,000 obligation of Stitch for the purchase of vending machines.

This termination agreement resulted in a gain of \$429,204 during the year ended June 30, 2004 and is reflected as Other income in the June 30, 2004 Consolidated Statement of Operations. This gain is comprised of the payment from Kodak of approximately \$675,000 plus the cancellation of Stitch's obligation to the supplier of the vending machines of approximately \$124,000 less a write-down of the carrying value of vending machines of approximately \$367,000 and a net write-off of amounts due to and from Kodak of \$3,000. The remaining vending machines are reported as assets held for sale in the June 30, 2004 Consolidated Balance Sheet, as it was determined that the plan of sale criteria in FAS 144 was met in the termination agreement, at which time depreciation of these assets ceased.

15. RETIREMENT PLAN

The Company's Savings and Retirement Plan (the "Plan") allows employees who have attained the age of 21 and have completed six months of service to make voluntary contributions up to a maximum of 15% of their annual compensation, as defined in the Plan. Through June 30, 2000, the Plan did not provide for any matching contribution by the Company, however, starting at the beginning of fiscal year 2001, the Company has amended the Plan to include a Company matching contribution up to 10% of an employee's compensation. Effective January 1, 2003, the matching contribution changed to a dollar-for-dollar matching contribution on salary deferrals up to 3% of the employee's compensation then a fifty-cents on the dollar matching contribution on salary deferrals from 3% to 5%. The Company's contribution for the years ended June 30, 2004 and 2003 was approximately \$78,000 and \$67,000, respectively.

16. LEASE COMMITMENTS

The Company conducts its operations from various facilities under operating leases. In March 2003, the Company entered into a lease for 12,864 square feet of space located in Malvern, Pennsylvania for its principal executive office and used for general administrative functions, sales activities, and product development. The lease term extends through December 31, 2008 and provides for escalating rent payments and a period of free rent prior to the commencement of the monthly lease payment in January 2004 of approximately \$25,000 per month.

In connection with the acquisition of the energy conservation product line in July 2003 from Bayview Technology Group, LLC, the Company assumed leases for 6,384 square feet of space located in Denver, CO used for administrative functions, sales activities and product warehousing associated with our Miser products. The lease terms extend through June 30, 2005 and provide for escalating rent payments currently at \$8,200 per month. The lease provides for additional rent for a prorated share of operating costs for the entire facility.

USA TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2004

16. LEASE COMMITMENTS (CONTINUED)

Rent expense under operating leases was approximately \$450,000 and \$292,000 during the years ended June 30, 2004 and 2003, respectively. Future minimum lease payments subsequent to June 30, 2004 under capital and noncancelable operating leases are as follows:

| | CAPITAL LEASES | OPERATING LEASES |
|--|-------------------|---------------------|
| | ----- | |
| 2005 | \$ 5,622 | \$ 462,000 |
| 2006 | 1,060 | 339,000 |
| 2007 | -- | 313,000 |
| 2008 | -- | 319,000 |
| 2009 and thereafter | 0- | 161,000 |
| | ----- | |
| Total minimum lease payments | 6,682 | \$ 1,594,000 |
| | | ===== |
| Less amount representing interest | 134 | |
| | ----- | |
| Present value of net minimum lease payments | 6,548 | |
| Less current obligations under capital leases | 5,491 | |
| | ----- | |
| Obligations under capital leases, less current portion | \$ 1,057 | |
| | | ===== |

17. CONTINGENCIES

Various legal actions and claims occurring in the normal course of business are pending or may be instituted or asserted in the future against the Company. The Company does not believe that the resolution of these matters will have a material effect on the financial position or results of operations of the Company.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable

ITEM 8A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

The principal executive officer and principal financial officer have evaluated the Company's disclosure controls and procedures as of June 30, 2004. Based on this evaluation, they conclude that the disclosure controls and procedures effectively ensure that the information required to be disclosed in the Company's filings and submissions under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in internal controls.

There have been no changes during the quarter ended June 30, 2004 in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

Our Directors and executive officers, on September 28, 2004, together with their ages and business backgrounds were as follows:

| Name | Age | Position(s) Held |
|---------------------------------|-----|--|
| George R. Jensen, Jr. | 55 | Chief Executive Officer, Chairman of the Board of Directors |
| Stephen P. Herbert | 41 | President, Director |
| Haven Brock Kolls, Jr. | 39 | Vice President - Research and Development |
| Mary West Young | 49 | Chief Financial Officer |
| William W. Sellers (1)(2) | 83 | Director |
| William L. Van Alen, Jr. (1)(2) | 71 | Director |
| Steven Katz (1) | 56 | Director |
| Douglas M. Lurio (2) | 47 | Director |

(1) Member of Compensation Committee
(2) Member of Audit Committee

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 our Chief Executive Officer and a Director since our inception in January 1992. Mr. Jensen 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 \$35 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 in April 1996, and joined USA on a full-time basis on May 6, 1996. Prior to joining us 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 USA Technologies 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.

Mary West Young joined USA in April 2004 and was named our Chief Financial Officer in May 2004. From 2001 to 2003, Ms. Young served as Senior Vice President-Finance, Controller and Chief Accounting Officer of RCN Corporation, and from 1998 to 2000 she served as Vice President - Finance and Corporate Controller for De Lage Landen Financial Services, Inc. Ms. Young held several management positions in International, Treasury and Accounting with Verizon from 1984 to 1992 and 1994 to 1998. Ms. Young received her Bachelor of Science and Masters of Business Administration degrees from La Salle University and is a Certified Public Accountant.

William W. Sellers joined the Board of Directors of USA 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.

William L. Van Alen, Jr., joined the Board of Directors of USA 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.

Steven Katz joined the Board of Directors in May 1999. He is President of Steven Katz & Associates, Inc., a management consulting firm specializing in strategic planning and corporate development for technology and service-based companies in the health care, environmental, telecommunications and Internet markets. Mr. Katz's prior experience includes five years with Pricewaterhouse & Co. in audit, tax and management advisory services; two years of corporate planning with Revlon, Inc.; five years with National Patent Development Corporation (NPDC) in strategic planning, merger and acquisition, technology in-licensing and out-licensing, and corporate turnaround experience as President of three NPDC subsidiaries; and two years as a Vice President and General Manager of a non-banking division of Citicorp, N.A.

Douglas M. Lurio joined the Board of Directors of USA in June 1999. Mr. Lurio is President of Lurio & Associates, P.C., attorneys-at-law, which he founded in 1991. He specializes in the practice of corporate and securities law. Prior thereto, he was a partner with Dilworth, Paxson LLP. Mr. Lurio received a Bachelor of Arts Degree in Government from Franklin & Marshall College, a Juris Doctor Degree from Villanova Law School, and a Masters in Law (Taxation) from Temple Law School.

AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors has determined that the Company does not have an audit committee financial expert (as defined under the rules of the Securities and Exchange Commission) serving on its audit committee. The Company believes that the current members of the audit committee have sufficient knowledge, background, and experience to fulfill their responsibilities, and at the present time, it is not necessary to have such a financial expert serving on the audit committee.

CODE OF BUSINESS CONDUCT AND ETHICS

We have adopted a Code of Business Conduct and Ethics that applies to all executive officers, directors and employees of the Company. The Code of Business Conduct and Ethics is attached as an exhibit to this Annual Report on Form 10-KSB.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers, and persons who own more than 10% of the Company's Common Stock, to file with the Securities and Exchange Commission reports of ownership and changes in ownership of Common Stock. Officers, directors and greater than 10% beneficial owners are required by Securities and Exchange Commission regulation to furnish the Company with copies of all Section 16(a) forms they file.

George R. Jensen, Jr. did not timely report 4 transactions and filed 3 late reports; Stephen P. Herbert did not timely report 5 transactions and filed 3 late reports; William Van Alen, Jr. did not timely report 18 transactions (relating primarily to quarterly interest received for past quarters) and filed 2 late reports; Steven Katz did not timely report 1 transaction and filed 1 late report; William W. Sellers did not timely reports 12 transactions (relating primarily to quarterly interest received for past quarters) and filed 1 late report; H. Brock Kolls did not timely report 2 transactions and filed 1 late report; and Mary West Young did not timely file 3 transactions and filed 1 late report.

ITEM 10. 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, 2002, June 30, 2003 and June 30, 2004 to each of the executive officers and employee of the Company named below:

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Fiscal Year | Annual Compensation | | | Long Term Compensation | |
|---|-------------|---------------------|----------------|------------------------------|-------------------------|----------------------------------|
| | | Salary | Bonus(1) | Other Annual Compensation(2) | Restricted Stock Awards | Securities Underlying Options(3) |
| George R. Jensen, Jr., Chief Executive Officer, | 2004 | \$217,500 | \$4,870,000(4) | \$ 17,875 | -- | -- |
| | 2003 | \$189,038 | \$250,000 | \$223,211 | -- | -- |
| | 2002 | \$135,000 | \$288,000 | \$ 80,000 | -- | 320,000 |
| Stephen P. Herbert, President | 2004 | \$192,692 | \$225,000 | \$ 17,875 | -- | -- |
| | 2003 | \$183,854 | \$225,000 | \$185,317 | -- | -- |
| | 2002 | \$125,000 | \$270,000 | \$ 80,000 | -- | 300,000 |
| H. Brock Kolls, Senior Vice President, Research & Development | 2004 | \$156,923 | \$ 60,000 | \$ 63,205 | -- | -- |
| | 2003 | \$150,000 | \$ 25,000 | \$ 64,493 | -- | -- |
| | 2002 | \$125,769 | \$180,000 | \$ 50,000 | -- | 250,000 |
| Adele H. Hepburn Director of Investor Relations | 2004 | \$130,000 | \$167,075 | -- | -- | -- |
| | 2003 | \$ 91,000 | \$282,382 | -- | -- | -- |
| | 2002 | \$ 91,000 | \$472,609 | -- | -- | 500,000 |
| Mary W. Young Chief Financial Officer(5) | 2004 | \$24,187 | \$33,636 | -- | -- | 300,000 |

(1) For fiscal year 2004 includes: 10,500,000 shares valued at \$0.44 per share, in connection with the amendment of his employment agreement, and a \$250,000 cash bonus for Mr. Jensen; a \$225,000 cash bonus for Mr. Herbert; a \$60,000 cash bonus for Mr. Kolls; a cashless exercise of 470,750 warrants into 470,750 shares valued at \$0.10 per share and a \$120,000 cash bonus for Ms. Hepburn; and 200,000 shares valued at \$0.168 per share for Ms. Young. For fiscal year 2003 includes: a \$100,000 Senior Note due 2005, including 2,000,000 shares valued at \$0.20, and \$150,000 cash bonus for Mr. Jensen; a \$100,000 Senior Note due 2005, 200,000 shares valued at \$0.20 and a \$125,000 cash bonus for Mr. Herbert; a \$25,000 cash bonus for Mr. Kolls; and a \$100,000 Senior Note due 2005, including 200,000 shares valued at \$0.20 a share, \$41,095 Senior Note due 2004, and a \$100,000 cash bonus for Ms. Hepburn. For fiscal year 2002, amount represents shares of Common Stock issued to the executive officers valued at \$0.45 per share, which was the market value on the date of grant (Mr. Jensen-640,000 shares; Mr. Herbert-600,000 shares; and Mr. Kolls-400,000 shares). For Adele Hepburn in fiscal 2002, the bonus includes \$408,267 of non-cash compensation, as follows: 435,334 shares of Common Stock at \$0.60; 384,334 shares at \$0.10; and a \$108,834 2001 - D 12% Senior Notes due December 31, 2003.

(2) Represents cash payments authorized to reimburse certain executive officers for tax payments incurred from the award of a previous bonus as well as car allowance payments.

(3) In July 1999, the Company extended the expiration dates to June 30, 2001 for the options to acquire Common Stock as held by the following directors,

officers, and employee: Adele Hepburn - 77,000 options; H. Brock Kolls - 20,000 options; William Sellers - 15,500 options; and William Van Alen - 12,500 options. All of the foregoing options would have expired in the first two calendar quarters of the year 2000 or the first calendar quarter of year 2001. In February 2001, all these options were further extended until June 30, 2003, and in addition the expiration dates of the following additional options were also extended to June 30, 2003: H. Brock Kolls - 20,000 options; Stephen Herbert - 40,000 options; Michael Lawlor - 3,750 options; George Jensen - 200,000 options. In October 2000, the Company issued to George R. Jensen, Jr., fully vested options to acquire up to 200,000 shares of Common Stock at \$1.50 per share. The options were exercisable at any time within two years following issuance. In February 2001, the Company extended the expiration date of these options until June 30, 2003. Effective December 31, 2002, all of the outstanding options (whether vested or unvested) then held by each of Messrs. Jensen, Herbert, Kolls, Maxwell, Sellers, Van Alen, Katz, Lurio and Boynton were voluntarily canceled by each of the foregoing individuals.

(4) Prior to July 2003, Mr. Jensen's employment agreement provided that upon the occurrence of a USA Transaction he would receive that number of shares equal to seven percent of all of the then issued and outstanding shares on a fully converted basis. During July 2003, the Company and Mr. Jensen agreed to amend Mr. Jensen's employment agreement so that upon the occurrence of a USA Transaction he would receive only four percent of the authorized shares as of July 2003. Based upon the authorized shares as of July 2003 of 350,000,000, the fixed number of shares to be issued to Mr. Jensen by the Company upon the occurrence of a USA Transaction was now only 14,000,000 shares. Under the new amended agreement, the 14,000,000 shares became subject to dilution (i.e., did not increase in order to reflect subsequent issuances by the Company of its shares). Under the prior agreement, the number of shares to be issued to Mr. Jensen was not subject to dilution (i.e., would be increased in order to reflect subsequent issuances by the Company of its shares) and was based upon the actual total number of shares outstanding at the time of a USA Transaction.

For example, if a USA Transaction occurred while there were 475,000,000 shares then outstanding on a fully converted basis, Mr. Jensen would have received 33,250,000 shares under his prior agreement rather than the fixed number of 14,000,000 shares under his new amended agreement.

During July 2003, the Company issued to Mr. Jensen an aggregate of 10,500,000 shares of restricted Common Stock, 2,500,000 shares of which were issued as compensation to Mr. Jensen, and 8,000,000 shares of which were issued to Mr. Jensen in connection with the employment agreement amendment described above. In accordance with generally accepted accounting principles, the Company was required to value these shares at \$.44 per share or an aggregate of \$4,620,000.

(5) Employment commenced on April 28, 2004.

OPTION GRANTS IN LAST FISCAL YEAR
(Individual Grants)

| Name | Number of securities underlying options granted (#) | Percent of total options granted to employees in fiscal year | Exercise base price (\$/share) | Expiration date |
|-----------------|---|--|--------------------------------|-----------------|
| Mary West Young | 300,000 (1) | 100% | \$.30 | (2) |

(1) Conditioned upon Ms. Young's employment, the options vest at a rate of 37,500 per three-month period commencing on July 31, 2004 for an aggregate of 300,000 options on April 30, 2006.

(2) The options expire two-years from the date of vesting.

TOTAL OPTIONS EXERCISED IN FISCAL YEAR ENDED JUNE 30, 2004 AND YEAR END VALUES

The following table gives information for options exercised by an executive officer and an employee in fiscal year 2004, and the number of options held by the executive officer and the employee at fiscal year end:

| Name | Shares Acquired On Exercise (#) | Value Realized (\$) | Number of Securities Underlying Unexercised Options at FY-End (#) Exercisable/Unexercisable/ | Value of Unexercised In-the-Money Options at FY-End(\$) Exercisable/Unexercisable/ |
|------------------|---------------------------------|---------------------|--|--|
| Adele H. Hepburn | 0 | 0 | 77,000/0 | 0 |
| Mary W. Young | 0 | 0 | 0/300,000 | 0 |

EXECUTIVE EMPLOYMENT AGREEMENTS

The Company has entered into an employment agreement with Mr. Jensen, which expires June 30, 2005, and is automatically renewed from year to year thereafter unless canceled by Mr. Jensen or the Company. The agreement provides for an annual base salary of \$250,000 effective January 1, 2004. 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 agreement also grants to Mr. Jensen in the event a "USA Transaction" (as defined below) occurs after the date thereof an aggregate of 14,000,000 shares of Common Stock subject to adjustment for stock splits or combinations ("Jensen Shares"). Mr. Jensen is not required to pay any additional consideration for the Jensen Shares. At the time of any USA Transaction, all of the Jensen Shares are automatically deemed to be issued and outstanding immediately prior to any USA Transaction, and are entitled to be treated as any other issued and outstanding shares of Common Stock in connection with such USA Transaction.

The term USA Transaction is defined as (i) the acquisition of fifty-one percent or more of the then outstanding voting securities entitled to vote generally in the election of Directors of the Company by any person, entity or group, or (ii) the approval by the shareholders of the Company of a reorganization, merger, consolidation, liquidation, or dissolution of the Company, or the sale, transfer, lease or other disposition of all or substantially all of the assets of the Company. The Jensen Shares are irrevocable and fully vested, have no expiration date, and will not be affected by the termination of Mr. Jensen's employment with the Company for any reason whatsoever. If a USA Transaction shall occur at a time when there are not a sufficient number of authorized but unissued shares of Common Stock, then the Company shall as a condition of such USA Transaction promptly take any and all appropriate action to make available a sufficient number of shares of Common Stock. In the alternative, the Company may structure the USA Transaction so that Mr. Jensen would receive the same amount and type of consideration in connection with the USA Transaction as any other holder of Common Stock.

The Company has entered into an employment agreement with Mr. Herbert, which expires on June 30, 2005, and 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 \$230,000 per year effective January 1, 2004. 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. In the event that a USA Transaction (as defined in Mr. Jensen's employment agreement) shall occur, then Mr. Herbert has the right to terminate his agreement upon 30 days notice to USA.

Mr. Kolls has entered into an employment agreement with the Company, which expires on June 30, 2005, 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 \$165,000 per year effective January 1, 2004. Mr. Kolls is entitled to a payment of \$5,000 upon each of the following: (i) filing of a new patent application by USA for which he is listed as the inventor; (ii) granting of any such patent application; and (iii) issuance of a patent for any patent application that had been filed prior to April 20, 2004. 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. In the event that a USA Transaction (as defined in Mr. Jensen's employment agreement) shall occur, then Mr. Kolls has the right to terminate his agreement upon 30 days notice to USA.

Ms. Hepburn has entered into an employment agreement with the Company, which expires on June 30, 2005, and is automatically renewed from year to year thereafter unless canceled by Ms. Hepburn or the Company. The agreement provides for an annual base salary of \$130,000 per year effective January 1, 2004. Ms. Hepburn is also entitled to receive such bonus or bonuses as the Board of Directors may award to her. The Agreement requires Ms. Hepburn to devote her full time and attention to the business and affairs of the Company, and obligates her 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.

Ms. Young has entered into an employment agreement with the Company, which expires on April 30, 2005, and is automatically renewed from year to year thereafter unless canceled by Ms. Young or the Company. The agreement provides for a base annual salary of \$165,000 and a discretionary performance-based bonus of up to 35% of her base salary. Ms. Young also received a \$30,000 payment that she used to purchase 200,000 shares of restricted Common Stock at \$.15 per share as part of the 2004-A private placement offering. Ms. Young was also granted options to purchase up to 300,000 shares of Common Stock of the Company at \$.30 per share. The options vest ratably over a two-year period and are exercisable at any time during the two-year period following vesting. The agreement requires Ms. Young to devote her full-time and attention to the business and affairs of the Company, and obligates her not to engage in any investments or activities which would compete with the Company during the term of her agreement and for a period of one year thereafter.

COMPENSATION OF DIRECTORS

Members of the Board of Directors receive cash and equity compensation for serving on the Board of Directors, as determined from time to time by the Compensation Committee with subsequent approval thereof by the Board of Directors.

The only compensation paid to our Directors during the fiscal year ended June 30, 2004 was during June 2004, when we paid \$30,000 to each of Messrs. Sellers and Van Alen for services as Chairperson of the Compensation Committee and the Audit Committee, respectively, rendered during the two prior fiscal years. As a condition of the payment, each agreed to purchase 200,000 shares of Common Stock at \$.15 per share as part of our 2004-A private placement.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

COMMON STOCK

The following table sets forth, as of June 30, 2004, the beneficial ownership of the Common Stock of each of the Company's directors and executive officers, the other employee named in the summary compensation table set forth above, 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. 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355 | 10,821,000 shares(3) | 2.48% |
| Stephen P. Herbert 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355 | 3,236,050 shares(4) | * |
| Haven Brock Kolls, Jr. 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355 | 707,325 shares(5) | * |
| Adele H. Hepburn 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355 | 9,112,859 shares(6) | 2.09% |
| Douglas M. Lurio 2005 Market Street, Suite 2340 Philadelphia, Pennsylvania 19103 | 921,463 shares(7) | * |
| William W. Sellers 701 Eagle Road Wayne, Pennsylvania 19087 | 2,712,486 shares(8) | * |
| Steven Katz 440 South Main Street Milltown, New Jersey 08850 | 535,000 shares | * |
| William L. Van Alen, Jr. P.O. Box 727 Edgemont, Pennsylvania 19028 | 2,773,269 shares(9) | * |
| Mary West Young 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355 | 200,000 shares | * |
| All Directors and Executive Officers As a Group (8 persons) ----- | 21,906,593 shares(10) | 5.03% |

*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, shares issuable upon the conversion of Convertible Senior Notes, or shares of Common Stock issuable upon exercise of warrants and options currently exercisable, or exercisable within 60 days of June 30, 2004, are deemed to be beneficially owned for purposes hereof.
- (2) On June 30, 2004 there were 351,654,131 shares of Common Stock and 522,742 shares of Preferred Stock issued and outstanding. 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 522,742 shares of Common Stock, that all of the options to acquire Common Stock which have been issued and are fully vested as of June 30, 2004 (or within 60-days of June 30, 2004) have been converted into 1,897,472 shares of Common Stock. For purposes of computing such percentages it has also been assumed that all of the remaining Common Stock Warrants have been exercised for 33,457,191 shares of Common Stock; that all of the Senior Notes have been converted into 47,351,320 shares of Common Stock; and that all of the accrued and unpaid dividends on the Preferred Stock as of June 30, 2004 have been converted into 667,718 shares of Common Stock. Therefore, 435,550,574 shares of Common Stock were treated as issued and outstanding for purposes of computing the percentages under this table.
- (3) Includes 511,000 shares of Common Stock beneficially owned by his spouse. Does not include the right granted to Mr. Jensen under his Employment Agreement to receive Common Stock upon the occurrence of a USA Transaction (as defined therein). See "Executive Employment Agreements". Includes 6,000,000 shares owned by George R. Jensen, Jr. Grantor Retained Unitrust dated July 14, 2003 over which Mr. Jensen retains beneficial ownership.
- (4) Includes 250,000 shares issuable to Mr. Herbert upon the conversion of Senior Notes, 1,050 shares of Common Stock beneficially owned by his child, 600,000 shares of Common Stock beneficially owned by his spouse, 250,000 shares issuable upon the conversion of Senior Notes beneficially owned by his spouse and 250,000 shares issuable to Mr. Herbert upon the exercise of warrants.
- (5) Includes 12,000 shares of Common Stock owned by Mr. Kolls' spouse, 150,000 shares issuable to his spouse upon conversion of her Senior Note and 3,600 shares issuable upon the exercise of warrants beneficially owned by his spouse.

- (6) Includes 473,044 shares of Common Stock owned by her spouse, 5,150 shares underlying Series A Preferred Stock held by her and her spouse, 1,615,418 shares issuable upon the conversion of her Senior Notes, 58,495 shares issuable upon the conversion of Senior Notes beneficially owned by her spouse, 212,025 shares issuable upon the exercise of her warrants, and 77,000 shares upon exercise of options.
- (7) Includes 225,000 shares issuable upon conversion of Senior Notes and 13,500 shares issuable upon exercise of warrants.
- (8) Includes 17,846 shares of Common Stock owned by the Sellers Pension Plan of which Mr. Sellers is a trustee, 4,952 shares of Common Stock owned by Sellers Process Equipment Company of which he is a Director, 10,423 shares of Common Stock owned by Mr. Seller's wife, 408,334 shares issuable upon conversion of his Senior Notes and 143,366 shares issuable upon the exercise of warrants.
- (9) Includes 266,670 shares of Common Stock issuable to Mr. Van Alen upon conversion of his Senior Notes, 548,566 shares issuable upon the exercise of warrants and 4,000 shares of Common Stock beneficially owned by his spouse.
- (10) Includes all shares of Common Stock described in footnotes (3) through (5) and (7) through (9) above.

PREFERRED STOCK

The following table sets forth, as of June 30, 2004 the beneficial ownership of the Preferred Stock by the Company's directors and executive officers, the other employee named in the Summary Compensation Table set forth above, 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) |
|---|--|---------------------|
| ----- Adele H. Hepburn 100 Deerfield Lane, Suite 140 Malvern, Pennsylvania 19355 | 5,150 shares (2) | * |
| All Directors and Executive Officers As a Group (8 persons) ----- | 0 shares | * |
| * Less than 1% | | |

(1) There were 522,742 shares of Preferred Stock issued and outstanding as of June 30, 2004.

(2) Ms. Hepburn is an employee of the Company.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the fiscal years ended June 30, 2004 and June 30, 2003, the Company incurred charges to Lurio & Associates, P.C., of which Mr. Lurio is President and a shareholder, for professional fees of approximately \$391,000 and \$305,000 respectively, for legal services rendered to the Company by such law firm. During the years ended June 30, 2004 and 2003, the Company accrued approximately \$32,000 and \$22,000, respectively, for these services. Mr. Lurio is a Director of the Company.

In October 2002, the Company approved the issuance to each of George R. Jensen, Jr., our Chief Executive Officer, and Stephen P. Herbert, our President and Chief Operating Officer, of \$100,000 of the Senior Note offering. Pursuant thereto, each of them received a \$100,000 12% Senior Note due December 31, 2005, and the related 200,000 shares of Common Stock. Both Mr. Jensen and Mr. Herbert earned the Note and related shares in fiscal 2003 for services rendered. In October 2002, the Company approved the issuance of \$100,000 of the Senior Note offering and 200,000 related shares of Common Stock to Adele Hepburn for services rendered during the 2002 calendar year. Ms. Hepburn earned the Note and related shares in fiscal 2003 for services rendered.

In April and May 2003, the Company authorized the payment of \$420,000 over the following six months to its five executive officers. The payments are to assist in the 2002 tax liability incurred by the executives due to common stock bonuses received by them during calendar year 2002.

During March through August, 2003, certain Directors, officers, an employee, and members of their immediate family, invested in the 2003-A Private Placement of USA shares at \$.10 per share, as follows: Adele Hepburn purchased 5,422,000 shares (\$543,200); Austin Hepburn purchased 30,000 shares (\$3,000); Adele Hepburn IRA purchased 415,000 shares (\$41,500); Stephen Herbert purchased 1,000,000 shares (\$100,000); Julie Herbert purchased 250,000 shares (\$25,000); Burton Jensen purchased 1,000,000 shares (\$100,000); David Jensen purchased 1,000,000 shares (\$100,000), Ron Jensen purchased 1,000,000 shares (\$100,000); George R. Jensen, Jr. purchased 1,000,000 shares (\$100,000); Michael Lawlor purchased 333,070 shares (\$33,307); Douglas M. Lurio purchased 500,000 shares (\$50,000); Steven Katz purchased 500,000 shares (\$50,000); the William W. Sellers Trust purchased 1,160,000 shares (\$116,000); William Van Alen, Jr., purchased 90,000 shares (\$9,000); and Leland P. Maxwell purchased 276,920 shares (\$27,692).

During June 2003, the Company approved the following cash payments as a bonus for services rendered to the Company by the named executive during the 2003 fiscal year: Mr. Jensen-\$150,000; Mr. Herbert-\$125,000; Ms. Hepburn-\$100,000; and Mr. Kolls- \$25,000. The payment of the bonus was conditioned upon the executive investing the entire cash bonus in common stock of the Company at \$.10 per share.

On July 10, 2003, USA and George R. Jensen, Jr., Chief Executive Officer and Chairman of USA, agreed upon an amendment to Mr. Jensen's employment agreement. Pursuant thereto, the number of shares of Common Stock of USA issuable to Mr. Jensen by USA upon the occurrence of a "USA Transaction" (as such term is defined in his employment agreement) was fixed at 14,000,000 shares rather than seven percent of the then issued and outstanding shares as previously provided. USA also issued to Mr. Jensen an aggregate of 10,500,000 shares of restricted Common Stock, 2,500,000 shares of which were issued as compensation to Mr. Jensen for future services, and 8,000,000 shares of which will be issued to Mr. Jensen in connection with the employment agreement amendment. Mr. Jensen has entered into a lock up agreement pursuant to which he shall not sell 2,500,000 of the shares for a one-year period and 8,000,000 of the shares for a two-year period.

During April through June, 2004, certain Directors and officers, members of their immediate family, and an employee, invested in the 2004-A Private Placement of USA shares at \$.15 per share and received a warrant to purchase an additional fifty-percent of such shares at \$.20 per share at any time before December 31, 2004. The foregoing individuals invested as follows: Stephen P. Herbert purchased 500,000 shares (\$75,000) and received a warrant to purchase an additional 250,000 shares; William W. Sellers purchased 200,000 shares (\$30,000) and received a warrant to purchase an additional 100,000 shares; William L. Van Alen, Jr., purchased 1,025,000 (\$153,750) and received a warrant to purchase an additional 512,500 shares; Mary West Young purchased 200,000 shares (\$30,000) and received a warrant to purchase an additional 100,000 shares; Adele Hepburn purchased 333,333 shares (\$50,000) and received a warrant to purchase an additional 166,667 shares; Burton Jensen purchased 733,333 shares (\$110,000) and received a warrant to purchase an additional 366,667 shares; David Jensen purchased 733,333 shares (\$110,000) and received a warrant to purchase an additional 366,667 shares; Ronald Jensen purchased 733,333 shares (\$110,000) and received a warrant to purchase an additional 366,667 shares; and Lucas Post Van Alen purchased 125,000 shares (\$18,750) and received a warrant to purchase an additional 62,500 shares.

Our Code of Business Conduct and Ethics prohibits us from entering into any related party transaction with an officer or director where such transaction would interfere with the exercise of the independent judgment of such officer or director or materially impair the performance of the responsibilities of any such officer or director.

PART IV

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

| Exhibit Number | Description |
|----------------|---|
| 2.1 | Asset Purchase Agreement dated July 11, 2003 by and between USA and Bayview Technology Group LLC (Incorporated by reference to Exhibit 2.1 to Form 8-K filed July 14, 2003) |
| 3.1 | Amended and Restated Articles of Incorporation of USA filed January 26, 2004 (Incorporated by reference to Exhibit 3.1.19 to Form 10-QSB filed on February 12, 2004). |

- 3.2 By-Laws of USA (Incorporated by reference to Exhibit 3.2 to Form SB-2 Registration Statement No. 33-70992).
- 4.1 Form of 12% Senior Note (Incorporated by reference to Exhibit 4.6 to Form SB-2 Registration Statement No. 333-81591).
- 4.2 Registration Rights Agreement dated August 3, 2001 by and between the Company and La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.9 to Form 10-KSB filed on October 1, 2001).
- 4.3 Securities Purchase Agreement dated August 3, 2001 between the Company and La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.10 to Form 10-KSB filed on October 1, 2001).
- 4.4 Form of Conversion Warrants to be issued by the Company to La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.11 to Form 10-KSB filed on October 1, 2001).
- 4.4.1 Addendum to Warrant to Purchase Common Stock dated April 21, 2004, between the Company and La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.1 to Form 10-QSB filed on May 17, 2004).
- 4.4.2 Addendum to Warrant to Purchase Common Stock dated May 11, 2004, between the Company and La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.2 to Form 10-QSB filed on May 17, 2004).
- 4.5 August 2, 2001 letter from La Jolla Cove Investors, Inc. to the Company (Incorporated by reference to Exhibit 4.14 to Form 10-KSB filed on October 1, 2001).
- 4.6 Stock Purchase Agreement dated October 26, 2002 by and between the Company and Kazi Management VI, Inc. (Incorporated by reference to Exhibit 4.17 to Form SB-2 Registration Statement No. 333-101032).
- 4.7 Warrant Certificate (no. 189) dated October 26, 2002 in favor of Kazi Management VI, Inc. (Incorporated by reference to Exhibit 4.18 to Form SB-2 Registration Statement No. 333-101032).
- 4.8 Registration Rights Agreement dated October 26, 2002 by and between the Company and Kazi Management, Inc. (Incorporated by reference to Exhibit 4.19 to Form SB-2 Registration Statement No. 333-101032).
- 4.9 Warrant Certificate (no. 190) dated October 26, 2002 in favor of Kazi Management VI, Inc. (Incorporated by reference to Exhibit 4.20 to Form SB-2 Registration Statement No. 333-101032).
- 4.10 Subscription Agreement dated November 4, 2002 by and between the Company and Alpha Capital Aktiengesellschaft (Incorporated by reference to Exhibit 4.21 to Form SB-2 Registration Statement No. 333-101032).
- 4.11 Form of Common Stock Purchase Warrant dated November 4, 2002 in favor of Alpha Capital Aktiengesellschaft (Incorporated by reference to Exhibit 4.22 to Form SB-2 Registration Statement No. 333-101032).
- 4.12 Form of 2004 Senior Note (Incorporated by reference to Exhibit 4.24 to Form SB-2 Registration Statement No. 333-101032).
- 4.13 Form of 2005 Senior Note (Incorporated by reference to Exhibit 4.25 to Form SB-2 Registration Statement No. 333-101032).

- **4.14 Addendum to 2006 Senior Note.
- **4.15 Addendum to 2007 Senior Note.
- 4.16 Stock Purchase Agreement dated May 2, 2003 by and between USA and Providence Investment Management (Incorporated by reference to Exhibit 4.26 to Form SB-2 Registration Statement No. 333-101032).
- 4.17 Stock Purchase Agreement dated March, 2003 by and between USA and Steve Illes (Incorporated by reference to Exhibit 4.27 to Form SB-2 Registration Statement No. 333-101032).
- 4.18 Stock Purchase Agreement dated September 23, 2003 by and between USA and Wellington Management Company, LLC. (Incorporated by reference to Exhibit 4.28 to Form 10-KSB filed on October 14, 2003).
- 4.19 Stock Purchase Agreement dated September 26, 2003 by and between USA and George O'Connell. (Incorporated by reference to Exhibit 4.29 to Form 10-KSB filed on October 14, 2003).
- 4.20 Stock Purchase Agreement dated September 24, 2003 by and between USA and Fulcrum Global Partners, LLC. (Incorporated by reference to Exhibit 4.30 to Form 10-KSB filed on October 14, 2003).
- 4.21 Stock Purchase Agreement dated September 2003 by and between USA and Prophecy Asset Management, Inc. (Incorporated by reference to Exhibit 4.31 to Form 10-KSB filed on October 14, 2003).
- 4.22 Letter Agreement between USA and La Jolla Cove Investors dated October 9, 2003. (Incorporated by reference to Exhibit 4.32 to Form SB-2 Registration Statement No. 333-101032).
- 4.23 Letter Agreement between USA and Alpha Capital Atkiengesellschaft dated October 3, 2003. (Incorporated by reference to Exhibit 4.33 to Form SB-2 Registration Statement No. 333-101032).
- 4.24 Form of Subscription Agreement for 2004-A Offering. (Incorporated by reference to Exhibit 4.3 to Form 10-QSB filed on May 17, 2004).
- 4.25 Form of 2004-A Warrant Certificate. (Incorporated by reference to Exhibit 4.34 to Form SB-2 Registration Statement No. 333-116977).
- 4.26 Common Stock Purchase Agreement between the Company and Steve Illes dated June 18, 2004. (Incorporated by reference to Exhibit 4.35 to Form SB-2 Registration Statement No. 333-116977).
- 4.27 Common Stock Purchase Agreement between the Company and Steve Illes dated August 6, 2004 (Incorporated by reference to Exhibit 4.35 to Form S-2 Registration Statement No. 333-118072).
- 10.1 Employment and Non-Competition Agreement between USA 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).
- 10.1.1 First Amendment to Employment and Non-Competition Agreement between USA and Adele Hepburn dated as of February 4, 2004. (Incorporated by reference to Exhibit 10.1.1 to Form 10-QSB filed on February 12, 2004).
- 10.2 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).

- 10.3 Employment and Non-Competition Agreement between USA 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).
- 10.3.1 First Amendment to Employment and Non-Competition Agreement between USA and H. Brock Kolls dated as of May 1, 1994 (Incorporated by reference to Exhibit 10.13.1 to Form SB-2 Registration Statement No. 333-09465).
- 10.3.2 Third Amendment to Employment and Non-Competition Agreement between USA and H. Brock Kolls dated February 22, 2000 (Incorporated by reference to Exhibit 10.3 to Form S-8 Registration Statement No. 333-341006).
- 10.3.3 Fourth Amendment to Employment and Non-Competition Agreement between USA and H. Brock Kolls dated April 15, 2002. (Incorporated by reference to Exhibit 10.4.3 to Form 10-QSB filed on February 12, 2004).
- 10.3.4 Fifth Amendment to Employment and Non-Competition Agreement between USA and H. Brock Kolls dated April 20, 2004 (Incorporated by reference to Exhibit 10.4 to Form SB-2 Registration Statement No. 333-116977).
- 10.4 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).
- 10.4.1 H. Brock Kolls Common Stock Options dated as of March 20, 1996 (Incorporated by reference to Exhibit 10.19 to Form SB-2 Registration Statement No. 33-70992)
- 10.5 Employment and Non-Competition Agreement between USA and Stephen P. Herbert dated April 4, 1996 (Incorporated by reference to Exhibit 10.30 to Form SB-2 Registration Statement No. 333-09465).
- 10.5.1 First Amendment to Employment and Non-Competition Agreement between USA and Stephen P. Herbert dated February 22, 2000 (Incorporated by reference to Exhibit 10.2 to Form S-8 Registration Statement No. 333-341006).
- 10.5.2 Second Amendment to Employment and Non-Competition Agreement between Stephen P. Herbert and the Company dated April 15, 2002 (Incorporated by reference to Exhibit 10.9.2 to Form SB-2 Registration Statement No. 333-101032).
- 10.5.3 Third Amendment to Employment and Non-Competition Agreement between Stephen P. Herbert and USA dated July 25, 2003 (Incorporated by reference to Exhibit 10.9.3 to Form SB-2 Registration Statement No. 333-101032).
- 10.5.4 Fourth Amendment to Employment and Non-Competition Agreement between USA and Stephen P. Herbert dated February 4, 2004. (Incorporated by reference to Exhibit 10.9.4 to Form 10-QSB filed on February 12, 2004).
- 10.6 Employment and Non-competition Agreement between USA and George R. Jensen, Jr. dated November 20, 1997 (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 26, 1997).
- 10.6.1 First Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr., dated as of June 17, 1999. (Incorporated by reference to Exhibit 4.21.1 to Form SB-2 Registration Statement No. 333-94917)

- 10.6.2 Second Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr. dated February 22, 2000 (Incorporated by reference to Exhibit 10.1 to Form S-8 Registration Statement No. 333-34106).
- 10.6.3 Third Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr. dated January 16, 2002 (Incorporated by reference to Exhibit 10.21.3 to Form SB-2 Registration Statement No. 333-101032).
- 10.6.4 Fourth Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr., dated April 15, 2002 (Incorporated by reference to Exhibit 10.21.4 to Form SB-2 Registration Statement No. 333-101032).
- 10.6.5 Fifth Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr., dated July 16, 2003 (Incorporated by reference to Exhibit 10.21.5 to Form SB-2 Registration Statement No. 333-101032).
- 10.6.6 Sixth Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr. dated February 4, 2004. (Incorporated by reference to Exhibit 10.21.6 to Form 10-QSB filed on February 12, 2004).
- 10.6.7 Letter agreement between USA and George R. Jensen, Jr. dated July 16, 2003 (Incorporated by reference to Exhibit 10.21.7 to Form 10-QSB filed on November 19, 2003).
- 10.6.8 Lock-Up Agreement dated July 16, 2003 by George R. Jensen, Jr. in favor of USA (Incorporated by reference to Exhibit 10.21.6 to Form SB-2 Registration Statement No. 333-101032).
- 10.7 Agreement between USA and PNC Merchant Services dated July 18, 1997 (Incorporated by reference to Exhibit 10.51 to Form SB-2 Registration Statement No. 333-38593, filed on February 4, 1998).
- 10.8 Investment Agreement between USA and Swartz Private Equity, LLC dated September 15, 2000 (incorporated by reference to Exhibit 10.1 to Form 8-K dated September 21, 2000).
- 10.9 Commitment Warrant issued to Swartz Private Equity LLC dated August 23, 2000 (incorporated by reference to Exhibit 10.2 to Form 8-K dated September 21, 2000).
- 10.10 Warrant Anti-Dilution Agreement between USA and Swartz Private Equity, LLC dated September 15, 2000 (incorporated by reference to Exhibit 10.3 to Form 8-K dated September 21, 2000).
- 10.11 Registration Rights Agreement between USA and Swartz Private Equity dated September 15, 2000 (incorporated by reference to Exhibit 10.4 to Form 8-K dated September 21, 2000).
- 10.12 Agreement and Plan of Merger dated April 10, 2002, by and among the Company, USA Acquisitions, Inc., Stitch Networks Corporation, David H. Goodman, Pennsylvania Early Stage Partners, L.P., and Maytag Holdings, Inc. (Incorporated by reference to Exhibit 2.1 to Form 10-QSB for the quarter ended March 31, 2002).
- 10.13 Agreement between USA and Mars Electronics, Inc. dated March 8, 2002 (Incorporated by reference to Exhibit 10.38 to Form SB-2 Registration Statement No. 333-101032).
- 10.14 Strategic Alliance Agreement between USA and ZiLOG Corporation dated October 15, 2002 (Incorporated by reference to Exhibit 10.39 to Form SB-2 Registration Statement No. 333-101032).

- 10.15 Vending Placement, Supply and Distribution Agreement between Stitch Networks Corporation, Eastman Kodak Company, Maytag Corporation and Dixie-Narco, Inc. dated December 2000 (Incorporated by reference to Exhibit 10.40 to Form SB-2 Registration Statement No. 333-101032).
- 10.16 Design and Manufacturing Agreement between USA and RadiSys dated June 27, 2000 (Incorporated by reference to Exhibit 10.41 to Form SB-2 Registration Statement No. 333-101032).
- 10.17 Loan Agreement between Stitch Networks Corporation and US Bancorp dated May 22, 2001 (Incorporated by reference to Exhibit 10.42 to Form SB-2 Registration Statement No. 333-101032).
- 10.18 Termination Agreement dated December 31, 2003 by and between Eastman Kodak Company, Maytag Corporation, Dixie-Narco, Inc. and Stitch Networks Corporation. (Incorporated by reference to Exhibit 10.6 to Form 10-QSB filed on February 12, 2004).
- 10.19 Option Certificate (No. 198) dated April 28, 2004 in favor of Mary West Young. (Incorporated by reference to Exhibit 10.45 to Form SB-2 Registration Statement No. 333-116977)
- 10.20 Employment and Non-Competition Agreement between USA and Mary West Young dated April 28, 2004. (Incorporated by reference to Exhibit 10.46 to Form SB-2 Registration Statement No. 333-116977).
- **10.21 Agreement of Lease between Pennswood Spring Mill Associates, as landlord, and the Company, as tenant, dated September 2002, and the Rider thereto
- **10.22 Agreement of Lease between Deerfield Corporate Center 1 Associates LP, as landlord, and the Company, as tenant, dated March 2003
- 10.23 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).
- **14.1 Code of Business Conduct and Ethics.
- **23 Consent of Independent Registered Public Accounting Firm.
- **31.1 Certification by the Chief Executive Officer Pursuant to 18 USC Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- **31.2 Certification by the Chief Financial Officer Pursuant to 18 USC Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- **32 Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- -----
 ** Filed herewith

(b) Reports on Form 8-K.

During the quarter ended June 30, 2004, the Company filed a Form 8-K dated May 24, 2004, reporting information under Item 5 thereof relating to the appointment of Mary West Young as Chief Financial Officer of the Company.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

AUDIT AND NON-AUDIT FEES

During the fiscal years ended June 30, 2004 and 2003, fees in connection with services rendered by Ernst & Young LLP, the Company's independent auditors were as set forth below:

| | Fiscal 2003 ----- | Fiscal 2004 ----- |
|--------------------|----------------------|----------------------|
| Audit Fees | \$410,700 | \$299,869 |
| Audit-Related Fees | -- | -- |
| Tax Fees | \$ 83,097 | \$ 65,321 |
| All Other Fees | -- | -- |
| | ----- | ----- |
| TOTAL | \$493,797 | \$365,190 |

Audit fees consisted of fees for the audit of our annual financial statements and review of quarterly financial statements as well as services normally provided in connection with statutory and regulatory filings or engagements, consents and assistance with and review of Company documents filed the Securities and Exchange Commission.

Tax fees consisted primarily of fees for tax compliance, tax advice and tax planning services.

There were no fees categorized as Audit-related or Other fees during fiscal years 2003 and 2004.

AUDIT COMMITTEE PRE-APPROVAL POLICY

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors on a case-by-case basis.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

USA TECHNOLOGIES, INC.

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

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

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURES ----- | TITLE ----- | DATE ----- |
|---|---|--------------------|
| /s/ George R. Jensen, Jr. ----- George R. Jensen, Jr. | Chairman of the Board of Directors, Chief Executive Officer (Principal Executive Officer) | September 28, 2004 |
| /s/ Mary West Young ----- Mary West Young | Chief Financial Officer (Principal Accounting Officer) | September 28, 2004 |
| /s/ William W. Sellers ----- William W. Sellers | Director | September 28, 2004 |
| /s/ Stephen P. Herbert ----- Stephen P. Herbert | Director | September 28, 2004 |
| /s/ William L. Van Alen, Jr. ----- William L. Van Alen, Jr. | Director | September 28, 2004 |
| /s/ Douglas M. Lurio ----- Douglas M. Lurio | Director | September 28, 2004 |
| /s/ Steven Katz ----- Steven Katz | Director | September 28, 2004 |

Exhibit Index

| Exhibit Number | Description |
|-------------------|---|
| 4.14 | Addendum to 2006 Senior Note |
| 4.15 | Addendum to 2007 Senior Note |
| 10.21 | Agreement of Lease between Pennswood Spring Mill Associates, as landlord, and USA, as tenant, Dated September 2002, with Rider thereto. |
| 10.22 | Agreement of Lease between Deerfield Corporate Center I Associates, L.P., as landlord, and USA, as tenant, Dated March 28, 2003. |
| 14.1 | Code of Business Conduct and Ethics |
| 23 | Consent of Independent Registered Public Accounting Firm. |
| 31.1 | Certification by the Chief Executive Officer Pursuant to 18 USC Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification by the Chief Financial Officer Pursuant to 18 USC Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

ADDENDUM TO 2003 SENIOR NOTE

This Addendum shall be a part of and incorporated by reference into the 12% Convertible Senior Note, due December 31, 2003, made by USA in favor of the undersigned ("Senior Note"). All capitalized terms used herein shall have the meanings ascribed to them in the Senior Note.

The undersigned, _____, is the holder of a \$ _____ principal amount Senior Note. The undersigned agrees and confirms that the Maturity Date of the Senior Note is hereby extended from December 31, 2003 until December 31, 2006. The undersigned further agrees and acknowledges that the Conversion Price of the Senior Note is hereby reduced from \$1.25 per share to \$.20 per share.

Except as expressly set forth herein, all the terms and conditions of the Senior Note from USA in favor of the undersigned shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned has executed this Addendum to 2003 Senior Note on this ____ day of _____ 2003.

#1

Signature

#2

Signature

#1

Witness

#2

Witness

AGREED TO AND ACCEPTED:
USA TECHNOLOGIES, INC.

By: _____
George R. Jensen, Jr.
Chairman and CEO

ADDENDUM TO 2004 SENIOR NOTE

This Addendum shall be a part of and incorporated by reference into the 12% Convertible Senior Note, due December 31, 2004, made by USA in favor of the undersigned ("Senior Note"). All capitalized terms used herein shall have the meanings ascribed to them in the Senior Note.

The undersigned, _____, is the holder of a \$ _____ principal amount Senior Note. The undersigned agrees and confirms that the Maturity Date of the Senior Note is hereby extended from December 31, 2004 until December 31, 2007. The undersigned further agrees and acknowledges that the Conversion Price of the Senior Note is hereby reduced from \$.40 per share to \$.20 per share.

Except as expressly set forth herein, all the terms and conditions of the Senior Note from USA in favor of the undersigned shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned has executed this Addendum to 2004 Senior Note on this ____ day of _____ 2003.

#1

Signature

#2

Signature

#1

Witness

#2

Witness

AGREED TO AND ACCEPTED:
USA TECHNOLOGIES, INC.

By: _____
George R. Jensen, Jr.
Chairman and CEO

AGREEMENT OF LEASE

THIS AGREEMENT OF LEASE (hereinafter referred to as "this Lease") is made this ____ day of _____, 2002 by and between PENNSWOOD SPRING MILL ASSOCIATES, a Pennsylvania limited partnership ("the Landlord"), and USA TECHNOLOGIES, INC. ("the Tenant").

WITNESSETH, THAT FOR AND IN CONSIDERATION of the mutual entry into this Lease by the parties hereto, and for other good and valuable considerations, the receipt and adequacy of which are hereby acknowledged by the Landlord and the Tenant, and intending to be legally bound thereby, the Landlord hereby leases the Premises (hereinafter defined) to the Tenant, and the Tenant hereby leases the Premises from the Landlord,

SUBJECT TO THE OPERATION AND EFFECT of any and all instruments and matters of record in fact,

UPON THE TERMS AND SUBJECT TO THE CONDITIONS set forth in this Lease.

The Landlord and the Tenant hereby agree as follows:

Section A. **Definitions.** Each of the following defined terms, when and as used in this Lease, shall have the definitions ascribed to them as follows:

- (1) "Building" means that certain building located on the Property in Malvern, Chester County, Pennsylvania, known as 2-30 Spring Mill Drive, together with any alterations thereof and additions thereto.
- (2) "Costs Component of Base Rent" means the sum of \$ ^{21,074} ~~0~~ per annum.
- (3) "General Conditions" means the General Conditions of this Lease, attached hereto and made a part hereof as Exhibit A.
- (4) "Land" means that certain parcel of real property located in Malvern, Chester County, Pennsylvania, more particularly described in Exhibit B attached hereto and made a part hereof.
- (5) "Lease" means, collectively, this Lease, the General Conditions, and the other exhibits, addenda and riders attached to and made a part of this Lease, and any and all modifications and supplements thereto.
- (6) "Lease Commencement Date" means September 15, 2002.
- (7) "Lease Termination Date" means January 31, 2004.
- (8) "Net Component of Base Rent" means the sum of \$ ⁶⁰⁰⁰ ~~48,000~~ per annum.
- (9) "Original Additional Rent Factor" means \$-0-.
- (10) "Permitted Uses" means general office and laboratory purposes. *Modified Dec 2002 increase to ? square feet*
- (11) "Premises" means that certain space containing approximately 4,400 square feet on the 1st floor of the Building, as more particularly shown on Exhibit C attached hereto and made a part hereof, and known as Suite 28.
- (12) "Projected Delivery Date" means September 15, 2002.
- (13) "Property" means the Premises, the remainder of the Building, the Land, the other buildings now located on the Land, and such other buildings or improvements now or hereafter located on the Land.
- (14) "Rules and Regulations" means the rules and regulations applicable to the Property described in Section 16 of the General Conditions, and any and all modifications and supplements thereto. A copy of the Rules and Regulations applicable to the Property on and as of the date hereof is attached hereto and made a part hereof as Exhibit D.
- (15) "Security Deposit" means the sum of \$ 4,000.00
- (16) "Term" means the term of one (1) years, commencing at 12:01 a.m., local time, on the Lease Commencement Date, and terminating at 11:59 p.m., local time, on the Lease Termination Date.

(17) "Tenant Improvements" means the improvements to be made to the Premises by the Landlord in accordance with and pursuant to Section 6.1 of the General Conditions. The plans and specifications for the Tenant Improvements are attached hereto and made a part hereof as Exhibit D.

Section B. Certain Ordinary Maintenance and Services. Certain items of ordinary maintenance and services with respect to the Premises, as more particularly described in this Section B, and the costs thereof, shall be provided and paid in the manner set forth in this Section B.

(1) **Services by Landlord.** Landlord shall provide, as needed throughout the "Term", the following services. The estimated costs of all of the services listed below in this subsection (1) are accounted for in the "Cost Component of Base Rent" and shall be calculated and billed or rebated in accordance with the provisions of Section 4.2 of the General Conditions.

(a) **Common Area Maintenance.** Maintenance and/or repair of all of the common areas of the Property, including, without limitation, landscaping, structural components of buildings, exterior lightings, snow removal, etc.

(b) **HVAC Maintenance.** ^{as directed} Repair and/or maintenance of heating, ventilating and air conditioning systems serving the Premises.

(2) **Services by Tenant.** Tenant shall supply, at its sole cost and expense, the following services:

(a) **Gas, Electric and other Utility Services.** Gas, electric and other utility services to be contracted for by the Tenant with PECO Energy Company or any other utility company which becomes appropriate.

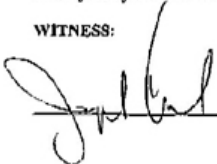
(b) **Interior Maintenance.** Repair and/or replacement of ballasts, bulbs, breakers, switches, outlets and similar electrical items serving the Premises, as well as repair and/or replacement of flanges, controls, tanks, bowls, stoppages, sinks, water heaters, insta-hots, faucets, spigots and valves and similar plumbing items serving the Premises.

(c) **Janitorial Service.** All cleaning with respect to the interior of the Premises, including, without limitation, carpet care, care of VIT tile, trash removal, bathroom cleaning, and dusting.

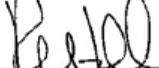
Section C. Exhibits. Each writing or plat attached hereto as an exhibit, addendum or rider or designated herein as an exhibit, addendum or rider is hereby made a part hereof.

IN WITNESS WHEREOF, the Landlord and the Tenant have executed and entered this Lease, or have caused it to be executed and entered by their duly authorized representatives, on the day and year first set forth above.

WITNESS:

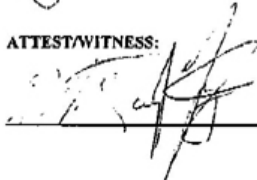


PENNSWOOD SPRING MILL ASSOCIATES

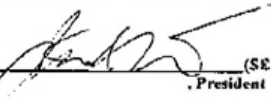
By: 
_____ (SEAL)
R. Richard Williams, General Partner

Landlord

ATTEST/WITNESS:



USA TECHNOLOGIES, INC.

By: 
_____ (SEAL)
President

AGREEMENT OF LEASE

EXHIBIT A

GENERAL CONDITIONS

These General Conditions are attached to and made a part of the Lease made between the Landlord and the Tenant with respect to the Premises. The Landlord and the Tenant further agree as follows:

1. **Definitions.** Each defined term used in these General Conditions shall have the definition given to such term in these General Conditions, or, if no definition is given to such term in these General Conditions, it shall have the definition given to such term in the Lease to which these General Conditions are attached.
2. **Term.** The Lease shall be for the Term commencing on the Lease Commencement Date and terminating on the Lease Termination Date; provided, however, that if the Lease Commencement Date is hereinafter advanced or postponed pursuant to any provision of the Lease or by the written agreement of the Landlord and the Tenant, (a) the date to which it is advanced or postponed shall thereafter, in lieu of the date set forth in Section A(6) of the Lease be "the Lease Commencement Date" for all purposes of the Lease, and (b) the Lease Termination Date, for all purposes of the Lease, shall, in lieu of the date set forth in Section A(7) of the Lease, be that date which is the last day of that period of full calendar months comprising the Term, as described in Section A(16) of the Lease. If for any reason the Lease Commencement Date and the Lease Termination Date are postponed, advanced or redetermined in accordance with the terms of the Lease, the Landlord and the Tenant shall, within fifteen (15) days after such postponement, advancement or redetermination, certify to each other, in writing, the Lease Commencement Date and the Lease Termination Date, as so postponed, advanced or redetermined.
3. **Use.**
 - (a) **Permitted uses.** The Tenant shall, continuously throughout the Term, occupy and use the Premises for and only for the Permitted Uses.
 - (b) **Compliance with laws.** In its use of the Premises, the Tenant shall not (a) violate any applicable laws, ordinances, rules or regulations of any federal, state or local governmental body, agency or authority, or (b) do any act or permit any act to be done which will result in the cancellation, suspension or violation of any insurance policy covering or pertaining to the Premises or any portion thereof.
 - (c) **Other parts of the property.** Except for the parking of automobiles in the ordinary course of business, the Tenant shall not place or permit its agents or employees to place any trash or other objects anywhere within the Building or on the rest of the Property (other than within the Premises) without first obtaining Landlord's express written consent thereto.

(d) Environmental protection.

(i) The Tenant represents, warrants and covenants that it will not use, generate, store or place on the Premises or elsewhere on the Property, nor permit the use, generation, storage or placement upon the Premises or elsewhere on the Property of, any materials or substances which are harmful or potentially harmful to human health or the environment, including, but not limited to, materials or substances covered by federal, state or local law, statute, ordinance or regulation, or court or administrative order or decree, or private agreement (hereinafter collectively called "the Environmental Requirements"), or which otherwise require special handling in collection, storage, generation, treatment or disposal, including, but not limited to, any asbestos, PCB transformers, or other toxic, hazardous or contaminated substances (hereinafter collectively called "Hazardous Substances"). The Tenant hereby indemnifies and saves the Landlord harmless from and against all liabilities and claims arising from the use, generation, storage or placement of any Hazardous Substances upon the Premises or elsewhere on the Property (if brought, placed, used or generated thereon by the Tenant or its agents, employees, contractors or invitees); and the Tenant shall (i) within fifteen (15) days after notice thereof, take or cause to be taken, at the Tenant's sole cost and expense, such actions as may be necessary to comply with all Environmental Requirements, and (ii) within fifteen (15) days after written demand therefor, reimburse the Landlord for any amounts deemed necessary by the Landlord to comply with any Environmental Requirements with respect to the Premises or with respect to any other portions of the Building or the Property as the result of the placement, storage, use or generation of Hazardous Substances by the Tenant or any of its agents, employees, contractors or invitees, or in connection with any judicial or administrative investigation or proceeding relating thereto, including, without limitation, reasonable attorney's fees, funds or other penalty payments.

(ii) For purposes of this provision, the Tenant shall be conclusively deemed to have violated the Environmental Requirements if: (i) any notice or order is directed to either the Landlord or the Tenant by any governmental agency, body or court alleging that such a violation by the Tenant has occurred; or (ii) if the Landlord obtains and delivers to the Tenant a report prepared by an engineer or other party engaged in the business of testing or determining the existence of Hazardous Substances, which report states that, in the opinion of such engineer or other party, the Tenant has used, generated, stored or placed Hazardous Substances upon the Premises. In the event that the Tenant is deemed to have violated any of the Environmental Requirements as set forth in this Section, the Landlord shall have the right and option, after fifteen (15) days prior notice to the Tenant, to terminate the Lease by written notice thereof to the Tenant, in which event the Landlord shall retain all rights and remedies and the Tenant shall be subject to all obligations and liabilities set forth elsewhere in the Lease as pertaining to defaults under the Lease by the Tenant, notwithstanding such termination.

(iii) The Tenant hereby grants to the Landlord, and to the Landlord's agents and employees (including, but not limited to, any engineers or other parties engaged in the testing of Hazardous Substances), the right to enter upon the Premises for the purpose of determining whether the Tenant, or any of the Tenant's agents, employees, contractors or invitees, has violated any of the provisions of this Section 3.4.

(iv) All obligations of the Tenant under this Section 3.4 shall survive the term of the Lease or the earlier termination of the Lease.

(e) Permits and approvals. The Tenant, at its sole cost and expense, shall obtain and cause to be in full force and effect at all times during the Term, all licenses, permits and approvals necessary with respect to the use of the Premises by the Tenant for the Permitted Uses and required by any governmental authority having jurisdiction with respect thereto.

4. Rent.

(a) Amount. As rent for the Premises (all of which is hereinafter referred to collectively as "Rent"), the Tenant shall pay to the Landlord all of the following:

(i) Base Rent. An annual rent (hereinafter referred to as the "Base Rent") comprised of the aggregate of the Net Component of Base Rent and the Costs Component of Base Rent.

(ii) Additional Rent. Additional rent (hereinafter referred to as "Additional Rent") in the amount of any payment referred to as such in any provision of the Lease which accrued while the Lease is in effect.

(iii) Lease Year. As used in the provisions of the Lease, the term "Lease Year" means (i) the period of twelve (12) successive calendar months commencing on the Lease Commencement Date, and (ii) each successive period of twelve (12) calendar months occurring thereafter

during the Term; provided, however, if the Lease Commencement Date does not occur on the first day of a calendar month, then, for purposes hereof, the first Lease Year shall be that period of time beginning on the Lease Commencement Date and ending on the first anniversary of the last day of the calendar month in which the Lease Commencement Date occurs.

(b) **Annual Operating Costs.**

(i) **Definition.** As used herein, the term "Annual Operating Costs" means those actual costs incurred by the Landlord in operating and maintaining the Property during each calendar year of the Term. Such costs shall include, by way of example rather than of limitation, (i) real property, front-foot benefit, other metropolitan district and other similar taxes or assessments (whether regular or special) levied against any or all of the Property; (ii) charges or fees for, and taxes on, the furnishing of water, sewer service, plumbing services, sprinkler and fire alarm service, gas, fuel, electricity or other utility services to the Property; (iii) costs of providing trash removal, snow removal and janitorial services and of maintaining grounds, common areas and common mechanical systems of buildings on the Property; (iv) all other costs of maintaining, repairing or replacing any or all of the Building, other buildings on the Property, or any of the rest of the Property, whether structural or non-structural in nature, including, without limitation, the roof of the Building or such other buildings and landscaping; (v) charges or fees for any necessary governmental permits; (vi) management fees, overhead and expenses; (vii) premiums for hazard, liability, workmen's compensation or similar insurance upon any or all of the Property; (viii) costs arising under service contracts with independent contractors; (ix) costs of any services not provided by the Landlord to the Property on the date hereof but hereafter provided by the Landlord in its prudent management of the Property; and (x) the cost of any other items which, under generally accepted accounting principles consistently applied from year to year with respect to the Property, constitute operating or maintenance costs attributable to any or all of the Property. Such costs shall not include (i) the expense of principal and interest payments made by the Landlord pursuant to the provisions of any mortgage or deed of trust covering the Property; (ii) any deduction for depreciation of the Property taken on the Landlord's income tax returns; or (iii) the cost of capital improvements made to the Property if and to the extent not taken as a deduction on the Landlord's federal income tax returns.

(ii) **Portion covered by Costs Component of Base Rent.** The Costs Component of Base Rent represents the Landlord's estimate on the date hereof of the cost to the Landlord per calendar year of providing to or for the benefit of the Premises all of the services or other items, the costs of which are included in the Annual Operating Costs, excluding any of such services or other items to be provided at the Tenant's direct expense under the provisions of Section 8 hereof.

(iii) **Computation.** After the end of each calendar year during the Term, the Landlord shall compute the total of the Annual Operating Costs incurred for all of the Property during such calendar year, and shall allocate them to the net rentable space within the Property by dividing such Annual Operating Costs by the aggregate square footage of all of the net rentable space within the Property, thereby deriving the cost of such categories of services and items per square foot of such net rentable space; provided, that anything contained in the foregoing provisions of this subsection 4.2 to the contrary notwithstanding, wherever the Tenant and/or any other tenant of space within the Property has agreed in its lease or otherwise to provide any item of such services partially or entirely at its own expense, or wherever in the Landlord's reasonable sole judgment any such significant item of expense is not incurred with respect to or for the benefit of all of the net rentable space within the Property, in allocating the Annual Operating Costs pursuant to the foregoing provisions of this subsection the Landlord shall make an appropriate adjustment, using generally accepted accounting principles, as aforesaid, so as to avoid allocating to the Tenant or to such other tenant (as the case may be) those Annual Operating Costs covering such services already being provided by the Tenant or by such other tenant at its own expense, or to avoid allocating to all of the net rentable space within the Property those Annual Operating Costs incurred only with respect to a portion thereof, as aforesaid.

(iv) **Payment as Additional Rent.** The Tenant shall, within fifteen (15) days after demand therefor by the Landlord (with respect to each calendar year during the Term), pay to the Landlord as Additional Rent the amount obtained by multiplying (1) the number of square feet of space within the Premises by (2) the amount by which (A) the Annual Operating Costs per square foot of the Premises for such calendar year (as derived under the provisions of subsection 4.2(c) hereto exceeds (B) the Original Additional Rent Factor.

(v) **Proration.** If only part of any calendar year falls within the Term, the amount computed as Additional Rent with respect to such calendar year under the foregoing provisions of this subsection shall be prorated in proportion to the portion of such calendar year falling within the Term (but the expiration of the Term before the end of such calendar year shall not impair the Tenant's obligation hereunder to pay such pro-rated portion of such Additional Rent with respect to that portion of such year falling within the Term, which shall be paid on demand, as aforesaid).

(vi) Landlord's right to estimate. Anything contained in the foregoing provisions of this subsection to the contrary notwithstanding, the Landlord may, at its discretion, make from time to time during the Term a reasonable estimate of the Additional Rent which may become due under such provisions with respect to any calendar year, and may require the Tenant to pay to the Landlord with respect to each calendar month during such year one-twelfth (1/12) of such Additional Rent, at the time and in the manner that the Tenant is required hereunder to pay the monthly installment of the Base Rent for such month. In such event, the Landlord shall cause the actual amount such Additional Rent to be computed and certified to the Tenant within 120 days after the end of such calendar year, and the Tenant or the Landlord, as the case may be, shall promptly thereafter pay to the other the amount of any deficiency or overpayment therein, as the case may be.

(c) When due and payable.

(i) The Base Rent for any Lease Year shall be due and payable in twelve (12) consecutive, equal monthly installments, in advance, on the first (1st) day of each calendar month during such Lease Year; provided, that the installment of the Base Rent payable for the first full calendar month of the Lease Year shall be due and payable on the full execution and delivery of the Lease; and provided, further, that if the Lease Commencement Date shall occur on a day other than the first day of a calendar month, the Tenant shall pay to the Landlord on the full execution and delivery of the Lease the installment of Base Rent due for the first full calendar month of the Term and for the prorated portion of the calendar month in which the Lease Commencement Date occurs.

(ii) Any Additional Rent accruing to the Landlord under any provision of the Lease shall, except as is otherwise set forth herein, be due and payable when the installment of the Base Rent next falling due after such Additional Rent accrued becomes due and payable, unless the Landlord makes written demand upon the Tenant for payment thereof at any earlier time, in which event such Additional Rent shall be due and payable at such time.

(iii) Each such payment shall be made promptly when due, without any deduction or setoff whatsoever, and without demand, failing which the Tenant shall pay to the Landlord as Additional Rent, for each day on which such payment is due but unpaid, a late charge equalling 1/365th of fifteen percent (15%) for such payment.

(d) Where and how payable. The Tenant shall pay the Rent to the Landlord, in lawful currency of the United States of America, by mailing it (postage prepaid) to the Landlord at c/o Pennswood Property Company, 90 Cricket Avenue, 2nd Floor, Ardmore, Pennsylvania 19003, or to such other address or in such other manner as the Landlord from time to time specifies by written notice to the Tenant. Any payment made by the Tenant to the Landlord on account of Rent may be credited by the Landlord to the payment of any Rent then past due before being credited to Rent currently falling due. Any such payment which is less than the amount of Rent then due shall constitute a payment made on account thereof, the parties hereto hereby agreeing that the Landlord's acceptance of such payment (whether or not with or accompanied by an endorsement or statement that such lesser amount or the Landlord's acceptance thereof constituted payment in full of the amount of Rent then due) shall not alter or impair the Landlord's rights hereunder to be paid all of such amount then due, or in any other respect.

(e) Security Deposit.

(i) Simultaneously with the full execution and delivery of the Lease by the parties hereto, the Tenant shall deposit the Security Deposit with the Landlord, which shall be retained by the Landlord as security for the Tenant's payment of the Rent and its performance of all of its other obligations under the provisions of the Lease.

(ii) Upon the occurrence of an Event of Default, the Landlord shall be entitled, at its sole discretion,

(A) to apply any or all of such sum in payment of (A) any Rent, for the payment of which the Tenant is in default, (B) any expense incurred by the Landlord in curing any such default, and/or (C) any damages incurred by the Landlord by reason of such default (including, by way of example rather than of limitation, the expense of reasonable attorneys' fees); or

(B) to retain any or all of such sum in liquidation of any or all damages suffered by the Landlord by reason of such default.

(iii) Upon the termination of the Lease, any of such sum which is not so paid or retained shall be returned to the Tenant.

(iv) Such sum shall not bear interest while being held by the Landlord hereunder.

(f) Tax on Lease. If federal, state or local law now or hereafter imposes any tax, assessment, levy or other charge (other than any income tax) directly or indirectly upon

(i) the Landlord with respect to the Lease or the value thereof, (b) the Tenant's use or occupancy of the Premises, (c) the Base Rent, the Additional Rent or any other sum payable under the Lease, or (d) this transaction, except if and to the extent that such tax, assessment, levy or other charge is included in the Annual Operating Costs, the Tenant shall pay the amount thereof as Additional Rent to the Landlord upon demand, unless the Tenant is prohibited by law from doing so, in which event the Landlord may, at its election, terminate the Lease by giving notice thereof to the Tenant.

5. Assignment and Subletting.

(a) The Tenant shall not mortgage, pledge or encumber the Lease.

(b) The Tenant shall not assign the Lease, or sublet or underlet any or all of the Premises, or permit any other person or entity to occupy any or all of the Premises, without on each occasion first obtaining the Landlord's written consent thereto (which consent shall not be unreasonably withheld, but may be conditioned, inter alia, upon the entry by the assignee into an appropriate instrument by which it assumes the Tenant's obligations under the provisions of the Lease). For purposes of the foregoing provisions of this subsection, a transfer by any person or persons controlling the Tenant on the date hereof of such control to a person or persons not controlling the Tenant on the date hereof shall be deemed to be an assignment of the Lease. No such action taken with or without the Landlord's consent shall in any way relieve or release the Tenant from liability for the timely performance of all of the Tenant's obligations hereunder. The Landlord shall be entitled to receive and retain, and the Tenant shall promptly remit to the Landlord, any profit which may inure to the Tenant's benefit as a result of any such assignment, subletting or underletting, whether or not consented to by the Landlord.

(c) Anything contained in the foregoing provisions of this Section to the contrary notwithstanding, neither the Tenant nor any other person having an interest in the possession, use, occupancy or utilization of the Premises or any other portion of the Property shall enter into any lease, sublease, license, concession or other agreement for the use, occupancy or utilization of space in the Premises or any other portion of the Property which provides for any rental or other payment for such use, occupancy or utilization based in whole or in part upon the net income or profits derived by any person from the space in the Premises or other portion of the Property so leased, used, occupied or utilized (other than any amount based on a fixed percentage or percentages of receipts or sales).

6. Tenant's plan for improvements.

(a) Leasehold improvements. The Landlord, at its sole cost and expense, shall make the Tenant Improvements to the Premises. The Landlord shall use its reasonable efforts so that the Landlord shall have completed the Tenant Improvements and tendered possession of the Premises to the Tenant for occupancy by the Tenant in accordance with the terms hereof (both such obligations of the Landlord being hereinafter called "the Tenant Improvement Obligations") on or before the Projected Delivery Date; but the Landlord shall have no liability to the Tenant hereunder if prevented from doing so by reason of any (a) strike, lock-out or other labor troubles, (b) governmental restrictions or limitations, (c) failure or shortage of electrical power, gas, water, fuel oil, or other utility or service, (d) riot, war, insurrection or other national or local emergency, (e) accident, flood, fire or other casualty, (f) adverse weather condition, (g) other act of God, (h) inability to obtain a building permit or a certificate of occupancy, or (i) other cause similar or dissimilar to any of the foregoing and beyond the Landlord's reasonable control (in which event the Lease Commencement Date and the Lease Termination Date shall be postponed for a length of time equalling the length of such delay). In the event that the Landlord is for any of the aforescribed reasons unable to fulfill the Tenant Improvement Obligations by the Projected Delivery Date, then, and in such event (i) the Lease Commencement Date shall be postponed for such period of time as is necessary to permit the Landlord to fulfill the Tenant Improvement Obligations, (ii) the Lease Termination Date shall be redetermined in accordance with the provisions of Section 2 hereof as a result of the postponement of the Lease Commencement Date, and (iii) the Tenant shall accept possession of the Premises immediately upon fulfillment of the Tenant Improvement Obligations.

(b) Acceptance of possession. Except for (a) latent defects or incomplete work which would not reasonably have been revealed by an inspection of the Premises made for the purpose of discovering the same at the time of the Tenant's assumption of possession of the Premises, and (b) any other items of incomplete work which are set forth on a punch list submitted to and approved in writing by the Landlord prior to such assumption of possession, by its assumption of possession of the Premises,

the Tenant shall for all purposes of the Lease be deemed to have accepted them and to have acknowledged them to be in the condition called for hereunder.

7. **Fire and other casualty.**

(a) **General.** If the Premises are damaged by fire or any other casualty during the Term,

(i) the Landlord shall restore the Premises with reasonable promptness (taking into account the time required by the Landlord to effect a settlement with, and to procure any insurance proceeds from, any insurer against such casualty, but in any event within one hundred fifty (150) days after the date of such casualty) to substantially their condition immediately prior to such casualty, and may temporarily enter and possess any or all of the Premises for such purpose (provided, that the Landlord shall not be obligated to repair, restore or replace any fixture, improvement, alteration, furniture or other property owned, installed or made by the Tenant); but

(ii) the times for commencement and completion of any such restoration shall be extended for the period (not longer than sixty (60) days) of any delay occasioned by the Landlord in doing so arising out of any of the causes enumerated in the provisions of subsection 6.1 hereof. If the Landlord undertakes to restore the Premises and such restoration is not accomplished within the said period one hundred fifty (150) days plus the period of any extension thereof, as aforesaid, the Tenant may terminate the Lease by giving notice thereof to the Landlord within thirty (30) days after the expiration of such period, as so extended; and

(iii) for so long as the Tenant is deprived of the use of any or all of the Premises on account of such casualty, the Base Rent and any Additional Rent payable under the provisions of subsection 4.2 hereof shall be abated in proportion to the number of square feet of the Premises rendered substantially unfit for occupancy by such casualty, unless, because of any such damage, the undamaged portion of the Premises is made materially unsuitable for use by the Tenant for the purposes set forth in the provisions of Section 3 hereof, in which event the Base Rent and any such Additional Rent shall be abated entirely during such period of deprivation.

(b) **Substantial destruction.** Anything contained in the foregoing provisions of this Section to the contrary notwithstanding,

(i) if during the Term the Building or any of the other buildings on the Property are so damaged by fire or any other casualty that (i) either the Premises, the Building (whether or not the Premises are damaged), or any of such other buildings on the Property (whether or not the Premises are damaged), are rendered substantially unfit for occupancy, as reasonably determined by the Landlord, or (ii) the Building or any of the other buildings on the Property are damaged to the extent that the Landlord reasonably elects to demolish the Building or any of such other buildings on the Property, then in either case the Landlord may elect to terminate the Term as of the date of the occurrence of such damage by giving notice thereof to the Tenant within thirty (30) days after such date; and

(ii) in such event, (i) the Tenant shall pay to the Landlord the Base Rent and any Additional Rent (apportioned, where applicable) to the time of such termination, (ii) the Landlord shall repay to the Tenant any and all prepaid Rent for periods beyond such termination, and (iii) the Landlord may enter upon and repossess the Premises without further notice.

(c) **Tenant's negligence.** Anything contained in any provision of the Lease to the contrary notwithstanding, if any such damage to the Premises, the Building or any of such other buildings on the Property is caused by or result from the negligent or intentionally tortious act or omission of the Tenant, those claiming under the Tenant or any of their respective officers, employees, agents or invitees,

(i) the Rent shall not be suspended or apportioned as aforesaid, and

(ii) except if and to the extent that the Tenant is released from liability therefore pursuant to the provisions of subsection 12.4 hereof, the Tenant shall pay to the Landlord upon demand, as Additional Rent, the cost of (1) any repairs and restoration made or to be made as a result of such damage, or (ii) (if the Landlord elects not to restore the Building or any of such other buildings on the Property) any damage or loss which the Landlord may incur as a result of such damage.

8. **Maintenance and services.**

(a) **Ordinary services.** The cost of all electricity provided to and consumed at the Premises during the Term shall be paid by the Tenant when and as due. Certain other ordinary services shall be provided (and the costs thereof shall be paid) in the manner described in Section B of the Lease.

(b) **Extraordinary services.** If the Tenant requires additional electrical current or installs electrical equipment (including, by way of example rather than of limitation, any electrical heating or refrigeration equipment, electronic data processing machine, punch-card machine, or machinery or equipment using current in excess of 110 volts), the Tenant may install any such lines or equipment if (a) it pays the cost of any such installation, and (b) it has first obtained the Landlord's written approval thereof.

(c) **Maintenance and alterations by Tenant.**

(i) Except to the extent provided to the contrary in Section B of the Lease, the Tenant shall, at its sole cost and expense, maintain the non-structural parts of the interior of the Premises in good repair and condition, damages by causes reasonably beyond the Tenant's control and ordinary wear and tear excepted.

(ii) The Tenant shall not make or permit to be made any alteration, addition or improvement to the Premises without first obtaining the Landlord's written consent thereto (which, in the case of non-structural alterations, additions and improvements only, shall not be unreasonably withheld). If the Landlord consents to any such proposed alteration, addition or improvement, it shall be made at the Tenant's sole expense (and the Tenant shall hold the Landlord harmless from any cost incurred on account thereof), and at such time and in such manner as not unreasonably to interfere with the use and enjoyment of the remainder of the Property by any tenant thereof or any other person.

(d) **Maintenance by Landlord.**

(i) The Landlord shall maintain (subject to reimbursement pursuant to the provisions of Section 4 hereof and any other provision of the Lease) the roof, structure and the remainder of the exterior of the Building, as well as each sidewalk and parking lot from time to time existing within the Property, all in good order and repair (which maintenance shall include the removal of snow from each such sidewalk and parking lot).

(ii) If the Tenant determines that the Landlord has not taken any action which it is required to take under the foregoing provisions of this subsection, the Tenant shall take no action hereunder on account hereof unless the Landlord has failed to take such action diligently and within a reasonable time after the Tenant has given written notice thereof to the Landlord.

9. **Defaults by the Tenant.**

(a) **Definition:** As used in the provisions of the Lease, each of the following events shall constitute, and is hereinafter referred to as, an "Event of Default".

(i) If the Tenant (i) fails to pay the Rent or any other sum which the Tenant is obligated to pay by any provision of the Lease, when and as it is due and payable hereunder and without demand therefor, or (ii) in any respect violates any of the terms, conditions or covenants set forth in the provisions of the Lease; or

(ii) if the Tenant (i) applies for or consents to the appointment of a receiver, trustee or liquidator of the Tenant or of all or a substantial part of its assets, (ii) files a voluntary petition in bankruptcy or admits in writing its inability to pay its debts as they come due, (iii) makes an assignment for the benefit of its creditors, (iv) files a petition or an answer seeking a reorganization or an arrangement with creditors, or seeks to take advantage of any insolvency law, (v) performs any other act of bankruptcy, or (vi) files an answer admitting the material allegations of a petition filed against the Tenant in any bankruptcy, reorganization or insolvency proceeding; or

(iii) if (i) an order, judgment or decree is entered by any court of competent jurisdiction adjudicating the Tenant a bankrupt or an insolvent, approving a petition seeking such a reorganization, or appointing a receiver, trustee or liquidator of the Tenant or of all or a substantial part of its assets, or (ii) there otherwise commences with respect to the Tenant or any of its assets any proceeding under any bankruptcy, reorganization, arrangement, insolvency, readjustment, receivership or similar law, and if such order, judgment, decree or proceeding continues unstayed for more than sixty (60) consecutive days after the expiration of any stay hereof.

(b) **Notice to Tenant; grace period.** Upon the occurrence of an Event of Default the Landlord shall not exercise any right or remedy which it holds under any provision of the Lease or under applicable law unless and until

(i) the Landlord has given written notice thereof to the Tenant, and

(ii) the Tenant has failed, (i) if such Event of Default consists of the failure to pay money, within ten (10) days thereafter to pay all of such money, or (ii) if such Event of Default consists of something other than the failure to pay money, within thirty (30) days thereafter actively, diligently and in good faith to proceed to cure such Event of Default and to continue to do so until it is fully cured; provided, that

(iii) no such notice shall be required, and the Tenant shall be entitled to no such grace period, (i) more than twice during any twelve (12) month period, or (ii) if the Tenant has substantially terminated or is in the process of substantially terminating its continuous occupancy and use of the Premises for the Permitted Uses, or (iii) if any Event of Default enumerated in the provisions of subsections 9.1 (b) or 9.1 (c) hereof has occurred.

(c) **Landlord's rights upon Event of Default.** Upon the occurrence of any Event of Default, which Event of Default has continued after the giving of all required notices and the expiration of any applicable cure periods, the Landlord may

(i) terminate the Lease by giving notice thereof to the Tenant, without giving the Tenant any further right to cure the Event of Default;

(ii) re-enter and repossess the Premises and any and all improvements thereon and additions thereto;

(iii) declare the entire balance of the Rent for the remainder of the Term to be due and payable, and collect such balance in any manner not inconsistent with applicable law;

(iv) relet any or all of the Premises for the Tenant's account for any or all of the remainder of the Term as hereinabove defined, or for a period exceeding such remainder, in which event the Tenant shall pay to the Landlord any deficiency in the Base Rent and any Additional Rent resulting, with respect to such remainder, from such reletting, as well as the cost to the Landlord of any repairs or other actions (including those taken in exercising the Landlord's rights under any provision of the Lease) taken by the Landlord on account of such Event of Default, and any repossession costs, brokerage commissions, alteration costs, expenses or preparation for such reletting and reasonable attorneys' fees, and any other costs of such termination, repossession and/or reletting; and/or

(v) pursue any combination of such remedies and/or any other remedy available to the Landlord on account of such Event of Default under applicable law. No provision of this Section 9.3 shall relieve the Tenant of its liabilities and obligations under the Lease, all of which shall survive any termination of the Lease, or repossession and/or reletting of the Premises. The Landlord shall not be deemed to accept a surrender of the Lease or otherwise discharge the Tenant because the Landlord takes or accepts possession of the Premises or exercises control over the Premises following an Event of Default. Acceptance of surrender and discharge may be done only by an instrument executed on behalf of the Landlord by a duly authorized officer or employee. Furthermore, in the event of any such termination of the Lease or any such repossession or reletting of the Premises, the Tenant shall be liable to the Landlord for and shall pay to the Landlord, in addition to the Rent and any other sums thereinabove described, such costs, expenses and reasonable attorneys' fees as shall be incurred by the Landlord in connection with the termination of the Lease or the repossession and/or reletting of the Premises.

(d) **Confession of Judgment.**

(i) The Tenant further waives the right to any notices to quit as may be specified in the Landlord and Tenant Act of Pennsylvania, Act of April 6, 1951, as amended, or any similar or successor provision of law, and agrees that five days' notice shall be sufficient in any case where a longer period may be statutorily specified.

(A) In addition to, and not in lieu of any of the foregoing rights granted to the Landlord:

(I) **THE TENANT HEREBY EMPOWERS ANY PROTHONOTARY, CLERK OF COURT OR ATTORNEY OF ANY COURT OF RECORD TO APPEAR FOR THE TENANT IN ANY AND ALL ACTIONS WHICH MAY BE BROUGHT FOR ANY RENT, OR ANY CHARGES HEREBY RESERVED OR DESIGNATED AS RENT OR ANY OTHER SUM PAYABLE BY THE TENANT TO THE LANDLORD UNDER OR BY REASON OF THE LEASE AND TO SIGN FOR TENANT AN AGREEMENT FOR ENTERING IN ANY COMPETENT COURT AN ACTION OR ACTIONS FOR THE RECOVERY OF SAID RENT, CHARGES AND OTHER SUMS, AND IN SAID SUIT OR IN SAID ACTION OR ACTIONS TO CONFESS JUDGMENT AGAINST THE TENANT FOR ALL OR ANY PART OF THE RENT**

SPECIFIED IN THE LEASE AND THEN UNPAID INCLUDING, AT THE LANDLORD'S OPTION, THE RENT FOR THE ENTIRE UNEXPIRED BALANCE OF THE TERM OF THE LEASE, AND ALL OR ANY PART OF ANY OTHER OF SAID CHARGES OR SUMS, AND FOR INTEREST AND COSTS TOGETHER WITH REASONABLE ATTORNEYS' FEES OF 5%. SUCH AUTHORITY SHALL NOT BE EXHAUSTED BY ONE EXERCISE THEREOF, BUT JUDGMENT MAY BE CONFERRED AS AFORESAID FROM TIME TO TIME AS OFTEN AS ANY OF SAID RENT OR SUCH OTHER SUMS, CHARGES, PAYMENTS, COSTS AND EXPENSES SHALL FALL DUE OR BE IN ARREARS, AND SUCH POWERS MAY BE EXERCISED AS WELL AFTER THE EXPIRATION OF THE TERM OR DURING ANY EXTENSION OR RENEWAL OF THE LEASE.

(II) WHEN THE LEASE OR THE TENANT'S RIGHT OF POSSESSION SHALL BE TERMINATED BY COVENANT OR CONDITION BROKEN, OR FOR ANY OTHER REASON, EITHER DURING THE TERM OF THE LEASE OR ANY RENEWAL OR EXTENSION THEREOF, AND ALSO WHEN AND AS SOON AS THE TERM OF THE LEASE OR ANY EXTENSION THEREOF SHALL HAVE EXPIRED, IT SHALL BE LAWFUL FOR ANY ATTORNEY AS ATTORNEY FOR THE TENANT TO FILE AN AGREEMENT FOR ENTERING IN ANY COMPETENT COURT AN ACTION TO CONFESS JUDGMENT IN EJECTMENT AGAINST THE TENANT AND ALL PERSONS CLAIMING UNDER THE TENANT, WHEREUPON, IF THE LANDLORD SO DESIRES, A WRIT OF EXECUTION OR OF POSSESSION MAY ISSUE FORTHWITH, WITHOUT ANY PRIOR WRIT OF PROCEEDINGS, WHATSOEVER, AND PROVIDED THAT IF FOR ANY REASON AFTER SUCH ACTION SHALL HAVE BEEN COMMENCED THE SAME SHALL BE DETERMINED AND THE POSSESSION OF THE PREMISES REMAIN IN OR BE RESTORED TO THE TENANT, THE LANDLORD SHALL HAVE THE RIGHT UPON ANY SUBSEQUENT DEFAULT OR DEFAULTS, OR UPON THE TERMINATION OF THE LEASE AS HEREINBEFORE SET FORTH, TO BRING ONE OR MORE ACTION OR ACTIONS AS HEREINBEFORE SET FORTH TO RECOVER POSSESSION OF THE PREMISES.

(III) IN ANY ACTION TO CONFESS JUDGMENT IN EJECTMENT OR FOR RENT IN ARREARS, THE LANDLORD SHALL FIRST CAUSE TO BE FILED IN SUCH ACTION AN AFFIDAVIT MADE BY IT OR SOMEONE ACTING FOR IT SETTING FORTH THE FACTS NECESSARY TO AUTHORIZE THE ENTRY OF JUDGMENT, OF WHICH FACTS SUCH AFFIDAVIT SHALL BE CONCLUSIVE EVIDENCE, AND IF A TRUE COPY OF THE LEASE (AND OF THE TRUTH OF THE COPY SUCH AFFIDAVIT SHALL BE SUFFICIENT EVIDENCE) BE FILED IN SUCH ACTION, IT SHALL NOT BE NECESSARY TO FILE THE ORIGINAL AS A WARRANT OF ATTORNEY, ANY RULE OF COURT, CUSTOM OR PRACTICE TO THE CONTRARY NOTWITHSTANDING.

(B) The Tenant releases the Landlord and any and all attorneys who may appear for the Landlord, all errors in any proceedings taken by the Landlord, whether by virtue of the powers of attorney contained in the Lease or not, and all liability therefor. The Tenant expressly waives the benefits of all laws, now or hereafter in force, exempting any property within the Premises or elsewhere from distraint, levy or sale. The Tenant further waives the right to any notice to remove as may be specified in the Landlord and Tenant Act of Pennsylvania, Act of April 6, 1951, as amended, or any similar or successor provision of law, and agrees except as otherwise provided herein that five (5) days notice shall be sufficient in any case where a longer period may be statutorily specified.

(C) _____ (INITIAL). **TENANT WAIVER.** THE TENANT SPECIFICALLY ACKNOWLEDGES THAT THE TENANT HAS VOLUNTARILY, KNOWINGLY AND INTELLIGENTLY WAIVED CERTAIN DUE PROCESS RIGHTS TO A PREJUDGMENT HEARING BY AGREEING TO THE TERMS OF THE FOREGOING PARAGRAPHS REGARDING CONFESSION OF JUDGMENT. THE TENANT FURTHER SPECIFICALLY AGREES THAT IN THE EVENT OF DEFAULT, THE LANDLORD MAY PURSUE MULTIPLE REMEDIES INCLUDING OBTAINING POSSESSION PURSUANT TO A JUDGMENT BY CONFESSION AND ALSO OBTAINING A MONEY JUDGMENT FOR PAST DUE AND ACCELERATED AMOUNTS AND EXECUTING UPON SUCH JUDGMENT. IN SUCH EVENT AND SUBJECT TO THE TERMS SET FORTH HEREIN, THE LANDLORD SHALL PROVIDE FULL CREDIT TO THE TENANT FOR ANY MONTHLY CONSIDERATION WHICH THE LANDLORD RECEIVES FOR THE PREMISES. FURTHERMORE, THE TENANT SPECIFICALLY WAIVES ANY CLAIM AGAINST THE LANDLORD AND THE LANDLORD'S COUNSEL FOR VIOLATION OF THE TENANT'S CONSTITUTIONAL RIGHTS IN THE EVENT THAT JUDGMENT IS CONFERRED PURSUANT TO THE LEASE.

(ii) All remedies available to the Landlord hereunder and otherwise available at law or in equity shall be cumulative and concurrent. No determination of the Lease nor taking or recovering possession of the Premises shall deprive the Landlord of any remedies or actions against the Tenant for rent, for charges, or for damages for the breach of any term, covenant or condition herein contained, nor shall the bringing of any such action for rent, charges or breach of term, covenant, or condition, nor the resort to any other remedy or right for the recovery of rent, charges or damages for such breach be construed as a waiver or release of the right to insist upon the forfeiture to obtain possession. The failure of the Landlord to insist upon strict or prompt performance of the terms, agreements, covenants and conditions of the Lease or any of them or the acceptance of such performance thereafter shall not constitute or be construed as a waiver of the Landlord's right to thereafter enforce the same strictly according to the tenor thereof in the event of a continuing or subsequent default.

(iii) The Tenant shall pay upon five (5) days' prior demand all of the Landlord's costs, charges and expenses, including the fees and out-of-pocket expenses of counsel, agents and others retained by the Landlord incurred in enforcing the Tenant's obligations hereunder or incurred by the Landlord in any litigation, negotiation or transaction in which the Tenant causes the Landlord, without the Landlord's fault, to become involved or concerned.

(e) **Landlord's right to cure.** Upon the occurrence of an Event of Default, the Landlord shall be entitled (but shall not be obligated), in addition to any other rights which it may have hereunder or under applicable law as a result thereof, and after giving the Tenant written notice of the Landlord's intention to do so except in the case of emergency, to cure such Event of Default, and the Tenant shall reimburse the Landlord for all expenses incurred by the Landlord in doing so, plus interest thereon at a lesser of the rate of fifteen percent (15%) per annum or the highest rate then permitted on account thereof by applicable law, which expenses and interest shall be Additional Rent and shall be payable by the Tenant immediately upon demand therefor by the Landlord.

10. **Holding over.** The Tenant shall not continue to occupy the Premises after the expiration or earlier termination of the Term, unless the Landlord consents in writing to such continuation of occupancy, in which event

(a) such occupancy shall (unless the parties hereto otherwise agree in writing) be deemed to be under a month-to-month tenancy, which shall continue until either party hereto notifies the other in writing, at least sixty (60) days before the end of any calendar month, that the party giving such notice elects to terminate such tenancy at the end of such calendar month, in which event such tenancy shall so terminate;

(b) anything contained in the foregoing provision of this Section to the contrary notwithstanding, the rental payable with respect to each such monthly period shall equal one-twelfth (1/12) of the Base Rent and the Additional Rent payable under the provisions of Section 4 hereof (calculated in accordance with such provisions of Section 4 as if the Lease had been renewed for a period of twelve (12) full calendar months after such expiration or earlier termination of the Term); and

(c) such month-to-month tenancy shall be upon the same terms and subject to the same conditions as those set forth in the provisions of the Lease, provided, that if the Landlord gives to the Tenant, at least sixty (60) days before the end of any calendar month during such month-to-month tenancy, notice that such terms and conditions (including any thereof relating to the amount and payment of Rent) shall, after such month, be modified in any manner specified in such notice, then such tenancy shall, after such month, be upon the said terms and subject to the said conditions, as so modified (except that in no event shall the amount of Rent payable pursuant to such terms and conditions, as so modified, be greater than twice the amount of Rent that would otherwise have been payable by the Tenant hereunder without regard to such modifications of the terms and conditions relating to the amount of Rent).

11. **Landlord's right of entry.** The Landlord and its agents shall be entitled to enter the Premises at any reasonable time.

- (a) to inspect the Premises,
- (b) to exhibit the Premises to any existing or prospective purchaser or Mortgagee (hereinafter defined) thereof or any prospective tenant thereof,
- (c) to make any alteration, improvement or repair to the Building or the Premises, or
- (d) for any other purpose relating to the operation or maintenance of the Property; provided, that the Landlord shall (x) (unless doing so is impractical or unreasonable because of

emergency) give the Tenant at least twenty-four (24) hours prior notice of its intention to enter the Premises, and (b) use reasonable efforts to avoid thereby interfering any more than is reasonably necessary with the Tenant's use and enjoyment thereof.

12. **Insurance and indemnification.**

(a) **Increase in risk.** The Tenant

(i) shall not do or permit to be done any act or thing as a result of which either (i) any policy of insurance of any kind covering any or all of the Property or any liability of the Landlord in connection therewith may become void or suspended, or (ii) the insurance risk under any such policy would (in the opinion of the insurer thereunder) be made greater; and

(ii) shall pay as Additional Rent the amount of any increase in any premium for such insurance resulting from any breach of such covenant.

(b) **Insurance to be maintained by Tenant.** The Tenant shall maintain at its expense, throughout the Term, insurance against loss or liability in connection with bodily injury, death, property damage and destruction, occurring within the Premises or arising out of the use thereof by the Tenant or its agents, employees, officers or invitees, visitors and guests under one or more policies of general public liability insurance having such limits as to each as are reasonably required by the Landlord from time to time (but in any event not less than (a) One Million Dollars (\$1,000,000.00) for injury to or death of any one or more persons during any one occurrence, and (b) Five Hundred Thousand Dollars (\$500,000.00) for property damage or destruction during any one occurrence. Such policies shall name the Landlord and the Tenant (and, at the Landlord's request, any Mortgagee) as the insured parties, shall provide that they shall not be cancellable without at least thirty (30) days' prior written notice to the Landlord (and, at the Landlord's request, any such Mortgagee), and shall be issued by insurers of recognized responsibility licensed to do business in the Commonwealth of Pennsylvania.

(c) **Insurance to be maintained by Landlord.** The Landlord shall maintain throughout the Term all-risk or fire and extended coverage insurance upon the Building, in such minimum amounts and having such forms of coverage as are required from time to time by the Landlord's lender. The cost of the premiums for such insurance and of each endorsement thereto shall be deemed, for purposes of Section 4 hereof, to be part of the costs of operating and maintaining the Property.

(d) **Waiver of subrogation.** If either party hereto is paid any proceeds under any policy of insurance naming such party as an insured, on account of any loss, damage or liability, then such party hereby releases the other party hereto, to and only to the extent of the amount of such proceeds, from any and all liability for such loss, damage or liability, notwithstanding that such loss, damage or liability may arise out of the negligent or intentionally tortious act or omission of the other party, its agents or employees; provided, that such release shall be effective only with respect to loss or damage occurring during such time as the appropriate policy of insurance of the releasing party provides that such release shall not impair the effectiveness of such policy or the insured's ability to recover thereunder. Each party hereto shall use reasonable efforts to have a clause to such effect included in its said policies, and shall promptly notify the other in writing if such clause cannot be included in any such policy.

(e) **Liability.** Except if and to the extent that the Tenant is released from liability to the Landlord pursuant to the provisions of subsection 12.4 hereof, the Tenant shall be responsible for, and shall indemnify and hold harmless the Landlord against and from any and all claims, demands, liability and damages arising out of any injury to or death of any person or damage to any property (a) occurring within the Premises for any reason whatsoever, or (b) occurring elsewhere on the Property by reason of the Tenant's occupancy or use of the Premises or any other portion of the Property.

13. **Eminent domain.**

(a) **Right to award.**

(i) If any or all of the Premises are taken by the exercise of any power of eminent domain or are conveyed to or at the direction of any governmental entity under a threat of any such taking (each of which is hereinafter referred to as a "Condemnation"), the Landlord shall be entitled to collect from the condemning authority thereunder the entire amount of any award made in any such proceeding or as consideration for such deed, without deduction therefrom for any leasehold or other estate held by the Tenant by virtue of the Lease.

(ii) The Tenant hereby (i) assigns to the Landlord all of the Tenant's right, title and interest, if any, in and to any such award, (ii) waives any right which it may otherwise have in connection with such Condemnation, against the Landlord or such condemning authority, to any payment for (A) the value of the then unexpired portion of the Term, (B) leasehold damages, and (C) any damage to or diminution of the value of the Tenant's leasehold interest hereunder or any portion of the Premises not covered by such Condemnation; and (iii) agrees to execute any and all further documents which may be required in order to facilitate the Landlord's collection of any and all such awards.

(iii) Subject to the operation and effect of the foregoing provisions of this Section, the Tenant may seek, in a separate proceeding, a separate award on account of any damages of costs incurred by the Tenant as a result of such Condemnation, so long as such separate award in no way diminishes any award or payment which the Landlord would otherwise receive as a result of such Condemnation.

(b) Effect of Condemnation.

(i) If (i) all of the Premises are covered by a Condemnation, or (ii) if any part of the Premises is covered by a Condemnation and the remainder thereof is insufficient for the reasonable operation therein of the Tenant's business, or (iii) any of the Building or any of the other buildings or portions thereof on the Property are covered by a Condemnation (whether or not the Premises are covered) and, in the Landlord's reasonable opinion, it would be impractical to restore the remainder thereof, then, in the event of any occurrence described in clauses (i) or (ii) above, the Term shall automatically terminate as herein provided, or, in the event of any occurrence described in clause (iii), the Term shall terminate in accordance with the provisions described herein at the sole option of the Landlord, which option shall be exercised by the giving of notice thereof to the Tenant. In the event of any termination of the Lease pursuant to the provisions of this subsection, the Term shall terminate on the date upon which possession of so much of the Premises, the Building or such other buildings on the Property, as the case may be, as is covered by such Condemnation is taken by the condemning authority thereunder, and all Rent (including, by way of example rather than of limitation, any Additional Rent payable pursuant to the provisions of subsection 4.2 hereof), taxes, and other charges payable hereunder shall be prorated and paid to such date.

(ii) If there is a Condemnation and the Term does not terminate pursuant to the foregoing provisions of this subsection, the operation and effect of the Lease shall be unaffected by such Condemnation, except that the Base Rent and the Additional Rent payable under the provisions of Section 4 hereof shall be reduced in proportion to the square footage of floor area, if any, of the Premises covered by such Condemnation.

(c) If there is a Condemnation, the Landlord shall have no liability to the Tenant on account of any (a) interruption of the Tenant's business upon the Premises, (b) diminution in the Tenant's ability to use the Premises, or (c) other injury or damage sustained by the Tenant as a result of such Condemnation.

(d) Except for any separate proceeding brought by the Tenant under the provisions of subsection 13.1(c) hereof, the Landlord shall be entitled to conduct any such condemnation proceeding and any settlement thereof free of interference from the Tenant, and the Tenant hereby waives any right which it might otherwise have to participate therein.

14. Mechanics' and materialmen's liens.

(a) The Tenant shall bond, remove or have removed any mechanics', materialman's or other lien filed or claimed against any or all of the Premises, the Property, or any other property owned or leased by the Landlord, by reason of labor or materials provided for or at the request of the Tenant or any of its contractors or subcontractors (other than labor or materials provided by the Landlord pursuant to the provisions of Section 6 hereof), or otherwise arising out of the Tenant's use or occupancy of the Premises or any other portion of the Property, and

(b) The Tenant shall indemnify and hold harmless the Landlord against and from any and all liability or expense (including, by way of example rather than of limitation, that of reasonable attorneys' fees) incurred by the Landlord on account of any such lien or claim.

(c) The Tenant, for itself and any and all subtenants, contractors, subcontractors and other parties acting for, through or under the Tenant, covenants and agrees with the Landlord that no mechanics' liens or claims shall be filed or maintained by it, them, or any of them, against the Premises, or any part of the Premises, and/or against the leasehold created by the Lease, for or on account of any work done or materials furnished under the Lease or any supplement to the Lease or under any contract

for any construction, reconstruction, maintenance and repair work on the Premises. The Tenant, for itself, and any and all subcontractors, contractors, subcontractors and parties acting through or under the Tenant, hereby expressly waives and relinquishes the right to have, file or maintain any such mechanics' liens or claims. Prior to the performance of any work on the Premises, the Tenant shall cause to be filed of record, and will require its contractors to file of record, a waiver of mechanics' liens in form and substance satisfactory to the Landlord. Prior to final payment to any contractors, subcontractor or material supplier with respect to any work done or materials furnished in or to the Premises, the Tenant shall obtain and furnish to the Landlord written releases of mechanics' liens with respect to all such work and/or materials.

15. Quiet enjoyment; surrender.

(a) Surrender.

(i) Upon the expiration or earlier termination of the Term, the Tenant shall surrender the Premises to the Landlord in good order and repair (damages reasonably beyond the Tenant's control and ordinary wear and tear excepted), and broom clean.

(ii) Any and all improvements, repairs, alterations and all other property attached to, used in connection with or otherwise installed upon the Premises (i) shall, immediately upon the completion of the installation thereof, be and become the Landlord's property without payment therefor by the Landlord, and (ii) shall be surrendered to the Landlord upon the expiration or earlier termination of the Term, except that any machinery, equipment or fixtures installed by the Tenant and used in the conduct of the Tenant's trade or business (rather than to service the Premises or any of the remainder of the Building or the Property generally) shall remain the Tenant's property and shall be removed by the Tenant within five (5) days after the expiration or earlier termination of the Term, and the Tenant shall promptly thereafter fully restore any of the Premises or the Building damaged by such installation or removal thereof.

16. Relocation of Tenant. The Landlord, at its sole expense, upon not less than sixty (60) days prior written notice to the Tenant, may require the Tenant to relocate from the Premises to other premises in the Building of comparable size and decor in order to permit the Landlord to consolidate the Premises with other adjoining space leased or to be leased to another tenant in or coming into the Building; provided, however, that in the event of receipt of any such notice, the Tenant, by notice to the Landlord, may elect not to relocate to such other premises, and in lieu thereof, may terminate the Lease. In the event of any such relocation, the Landlord shall pay all the expenses of the (a) preparing and decorating the new premises so that such premises will be substantially similar to the original Premises; and (b) the expenses of moving the Tenant's furniture and equipment to the new Premises. The use and occupancy by the Tenant of the new Premises shall be under and pursuant to the same terms, conditions and provisions of the Lease and that Tenant shall execute any and all amendments to the Lease as the Landlord shall deem necessary to effectuate provisions of this paragraph.

17. Rules and Regulations. The Landlord hereby reserves the right to prescribe, at its sole discretion, reasonable rules and regulations (hereinafter referred to as the "Rules and Regulations"), having uniform applicability to all tenants of the Building and governing the use and enjoyment of the Building and the remainder of the Property; provided, that the Rules and Regulations shall not materially interfere with the Tenant's use and enjoyment of the Premises, in accordance with the provisions of the Lease, for the Permitted Uses. The Tenant shall adhere to the Rules and Regulations and shall cause its agents, employees, invitees, visitors and guests to do so.

18. Subordination; attornment and non-disturbance.

(a) **Subordination.** The Lease shall be subject and subordinate at all times to the lien of any mortgage, deed of trust, ground lease and/or other instrument or encumbrance heretofore or hereafter placed by the Landlord upon any and/or all of the Premises or the remainder of the Property and of all renewals, modifications, consolidations, replacements and extensions thereof (each of which is herein referred to as a "Mortgage"), all automatically and without the necessity of any further action on the part of the Tenant to effectuate such subordination.

(b) **Attornment and non-disturbance.** The Tenant shall, promptly at the request of the Landlord or the holder of any Mortgage (herein referred to as a "Mortgagee"), (a) execute, seal, acknowledge and deliver such further instrument or instruments evidencing such subordination as the Landlord or such Mortgagee may deem necessary or desirable, and (b) attorn to such Mortgagee.

(c) **Rights of Mortgagee.** Anything contained in the provisions of this Section to the contrary notwithstanding, any Mortgagee may at any time subordinate the lien of its Mortgage to the

operation and effect of the Lease without the necessity of obtaining the Tenant's consent thereto, by giving the Tenant notice thereof, in which event the Lease shall be deemed to be senior to such Mortgage without regard to their respective dates of execution, delivery and/or recordation among the Land Records of the County in which the Property is located, and thereafter such Mortgagee shall have the same rights with respect to the Lease as though the Lease had been executed and recorded among the said Land Records before the execution and delivery of such Mortgage.

19. **Estoppel certificate.** The Tenant shall from time to time, within five (5) days after being requested to do so by the Landlord or any Mortgagee, execute, enclose, acknowledge and deliver to the Landlord an instrument in recordable form,

(a) certifying

(i) that the Lease is unmodified and in full force and effect (or, if there has been any modification thereof, that it is in full force and effect as so modified, stating therein the nature of such modification);

(ii) as to the dates to which the Base Rent and any Additional Rent and other charges arising hereunder have been paid in advance of the dates on which payment thereof is due hereunder, if any;

(iii) as to the amount of any prepaid Rent or any credit due to the Tenant hereunder;

(iv) that the Tenant has accepted possession of the Premises, and the date on which the Term commenced;

(v) as to whether, to the best knowledge, information and belief of the signer of such certificate, the Landlord is then in default in the performance of any of its obligations hereunder (and, if so, specifying the nature of each such default); and

(vi) as to any other fact or condition reasonably requested by the Landlord, any Mortgagee or prospective Mortgagee or purchaser of any or all of the Premises, the Property or any interest therein, or any assignee or prospective assignee of any interest of the Landlord under the Lease; and

(b) acknowledging and agreeing that any statement contained in any such certificate may be relied upon by the Landlord and any such other person.

20. **Notices.** Any notice, demand, consent, approval, request or other communication or document to be provided hereunder to a party hereto shall be

(a) in writing, and

(b) deemed to have been provided (a) forty-eight (48) hours after being sent as certified or registered mail in the United States mails, postage prepaid, return receipt requested, to the address of such party set forth hereinbelow or to such other address in the United States of America as such party may designate from time to time by notice to the other, or (b) (if such party's receipt thereof is acknowledged in writing) given by hand or other delivery to such party.

(c) sent to 90 Cricket Avenue, 2nd Floor, Ardmore, Pennsylvania 19003, in care of Pennswood Property Company, if intended for the Landlord, with a copy to Howard R. Majeve, Esquire, Rudnick, Wolfe, Epstein & Zeidman, 1201 New York Avenue, N.W., Penthouse, Washington, D.C. 20005-3919.

(d) sent to the Premises if intended for the Tenant.

21. **General.**

(a) **Effectiveness.** The Lease shall become effective upon and only upon the execution and delivery hereof by each party hereto.

(b) **Complete understanding.** The Lease represents the complete understanding between the parties hereto as to the subject matter hereof, and supersedes all prior negotiations, representations, warranties, statements or agreements, either written or oral, between the parties hereto as to the same.

(c) **Amendment.** The Lease may be amended by and only by an instrument executed and delivered by each party hereto.

(d) **Applicable Law.** The Lease shall be given effect and construed by application of the law of the Commonwealth of Pennsylvania, and any action or proceeding arising hereunder shall be brought in a court having jurisdiction in the Commonwealth of Pennsylvania.

(e) **Waiver.** The Landlord shall not be deemed to have waived the exercise of any right which it holds hereunder unless such waiver is made expressly and in writing (and no delay or omission by the Landlord in exercising any such right shall be deemed to be a waiver of the future exercise thereof). No such waiver made with respect to any instance involving the exercise of any such right shall be deemed to be a waiver with respect to any other such instance, or any other such right.

(f) **Time of essence.** Time shall be of the essence of the Lease.

(g) **Headings.** The headings of the Sections, subsections, paragraphs and subparagraphs hereof are provided herein for and only for convenience of reference, and shall not be considered in construing their contents.

(h) **Construction.** As used herein,

(i) the term "person" means a natural person, a trustee, a corporation, a partnership and any other form of legal entity; and

(ii) all references made (i) in the neuter, masculine or feminine gender shall be deemed to have been made in all such genders, (ii) in the singular or plural number shall be deemed to have been made, respectively, in the plural or singular number as well, and (iii) to any Section, subsection, paragraph or subparagraph shall, unless therein expressly indicated to the contrary, be deemed to have been made to such Section, subsection, paragraph or subparagraph of the Lease.

(i) **Severability.** No determination by any court, governmental body or otherwise that any provision of the Lease or any amendment hereof is invalid or unenforceable in any instance shall affect the validity or enforceability of (a) any other provision thereof, or (b) such provision in any circumstance not controlled by such determination. Each such provision shall be valid and enforceable to the fullest extent allowed by, and shall be construed wherever possible as being consistent with, applicable law.

(j) **WAIVER OF JURY TRIAL. THE LANDLORD AND THE TENANT EACH WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES OF THE LEASE AGAINST THE OTHER ON ANY MATTER WHATSOEVER ARISING OUT OF OR IN ANYWAY CONNECTED WITH THE LEASE OR ITS TERMINATION, THROUGH RELATIONSHIP WITH THE LANDLORD AND THE TENANT, THE TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM, INJURY OR DAMAGE RELATED THERETO.**

(k) **Recording.** The Landlord and the Tenant hereby agree that neither the Lease nor any memorandum thereof shall be recorded, and if recordation should take place in contravention of the terms of this section or by subsequent written agreement of the parties hereto amending the provisions of this section, the party causing such recordation shall pay all costs of such recordation, including, but not limited to, the transfer taxes and documentary stamp taxes thereon.

(l) **Definition of "the Landlord".**

(i) As used herein, the term "the Landlord" means the entity hereinabove named as such, and its successors and assigns (each of whom shall have the same rights, remedies, powers, authorities and privileges as it would have had, had it originally signed the Lease as the Landlord).

(ii) No person holding the Landlord's interest hereunder (whether or not such person is named as "the Landlord" herein) shall have any liability hereunder after such person ceases to hold such interest, except for any such liability accruing while such person holds such interest.

(iii) Neither the Landlord nor any principal of the Landlord, whether disclosed or undisclosed, shall have any personal liability under any provision of the Lease. If the Landlord defaults in the performance of any of its obligations hereunder or otherwise, the Tenant shall look solely to the Landlord's equity, interest and rights in the Property for satisfaction of the Tenant's remedies on account thereof.

(m) **Definition of "the Tenant"**. As used herein, the term "the Tenant" means each person hereinabove named as such and such person's heirs, personal representatives, successors and assigns, each of whom shall have the same obligations, liabilities, rights and privileges as it would have possessed have it originally executed the Lease as the Tenant; provided, that no such right or privilege shall inure to the benefit of any assignee of the Tenant, immediate or remote, unless the assignment to such assignee is made in accordance with the provisions of Section 5. Whenever two or more persons constitute the Tenant, all such persons shall be jointly and severally liable for the performance of the Tenant's obligations hereunder.

(n) **Attorney's Fees**. If the Landlord shall bring an action regarding any of the terms or conditions of the Lease or any of its rights hereunder, Landlord, if prevailing in any such action on trial or appeal, shall be entitled to reasonable attorneys' fees as fixed by the court to be paid by the Tenant. The term "attorneys' fees" shall include, but is not limited to, reasonable attorneys' fees incurred in any and all judicial, bankruptcy, reorganization, administrative and other proceedings, including appellate proceedings, whether the proceedings arise before or after the entry of a final judgment and all costs and disbursements in connection with the matter.

(o) **Conflicts**. In the event that any of the terms, conditions and provisions of these General Conditions shall conflict with any of the terms, conditions or provisions of any other portions of the Lease, then, and in each such event, the terms, conditions and provisions of such other portions of the Lease shall be controlling.

AGREEMENT OF LEASE

EXHIBIT B

DESCRIPTION OF THE LAND

ALL THAT CERTAIN tract or piece of ground, Situate partly in the Township of Charlestown and partly in the Township of East Whiteland, County of Chester and Commonwealth of Pennsylvania, bounded and described according to a plan of Great Valley Corporate Center Commerce Park Parcel I, by F. Daniel Cahers & Associates, Inc. dated 5/10/87 and surveyed by David A. Plum, Inc. dated 9/30/98, as follows, to wit:

BEGINNING, at a point on the Southeast side of Phoenixville Pike at a corner of Parcel X as shown on said plan, thence extending from said point of beginning and along the said side of Phoenixville Pike the said plan, thence extending from said point of beginning and along the said side of Phoenixville Pike the three following courses and distances, (1) North 56 degrees 31 minutes 30 seconds East 342.00 feet to a point, (2) South 33 degrees 28 minutes 30 seconds East 10.00 feet to a point of curve, thence extending along the arc of a circle curving to the right having a radius of 43.00 feet the arc distance of 67.71 feet to a point of tangent on the southwest side of Spring Mill Drive, thence extending along the same South 33 degrees 15 minutes 00 seconds East crossing the Township Line dividing the Township of Charlestown and the Township of East Whiteland 676.42 feet to a point, a corner of Parcel XVI on said plan, thence extending partly along the same and partly along Parcel XIV South 72 degrees 59 minutes 00 seconds West crossing the northerly side of a railroad easement 446.05 feet to a point, thence extending still along a Parcel XIV South 62 degrees 58 minutes 00 seconds West 182.60 feet to a corner of Parcel X aforesaid, thence extending along the same North 33 degrees 28 minutes 30 seconds West recrossing the northerly side of the railroad easement and the Township Line 582.75 feet to a point on the Southeast side of Phoenixville Pike, being the first mentioned point and place of beginning.

Being Parcel I on said plan.

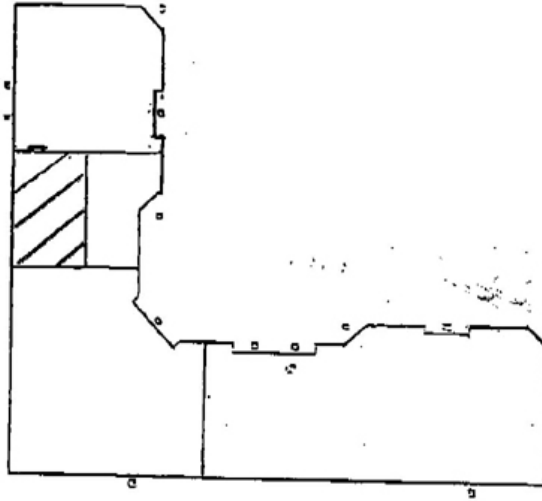
Being Tax Parcel Number 35-4-103.

Containing 8.791 Acres more or less in Charlestown Township
0.018 Acres more or less in East Whiteland Township

AGREEMENT OF LEASE

EXHIBIT C

LOCATION OF ORIGINAL PREMISES AND ADDITIONAL PREMISES



2 - 30 Spring Mill Drive
Malvern, PA

442422.6 7/14/98

C - 1

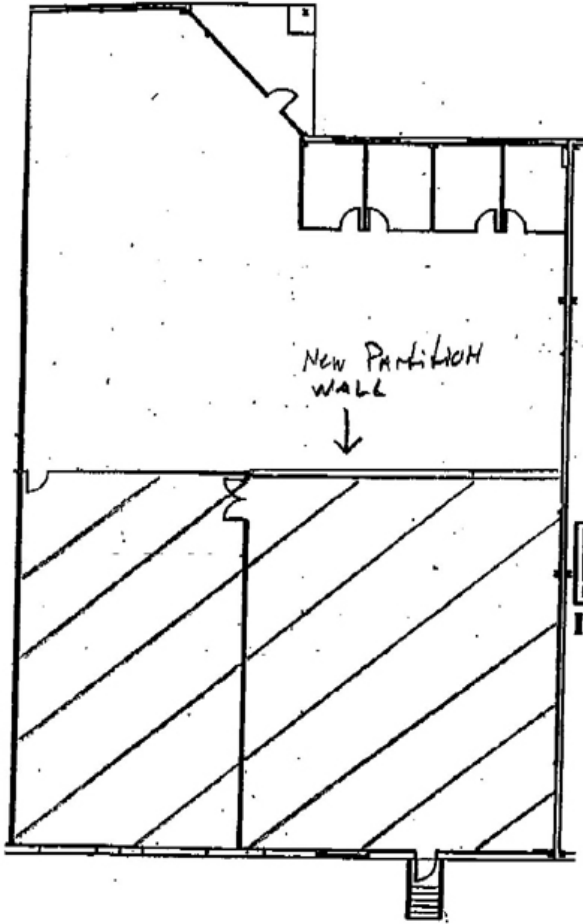
AGREEMENT OF LEASE

EXHIBIT D

PLANS AND SPECIFICATIONS
FOR TENANT IMPROVEMENTS

Landlord will complete the following work to the Premise at Landlord's sole cost.

1. Install manually operated standard loading dock door.
2. Install locks on all doors as necessary to secure the Premises.
3. Install partition wall per plan.



AGREEMENT OF LEASE

EXHIBIT E

CURRENT RULES AND REGULATIONS

1. The sidewalks, lobbies, passages, elevators and stairways shall not be obstructed by the Tenant or used by the Tenant for any purpose other than ingress and egress from and to the Tenant's offices. The Landlord shall in all cases retain the right to control or prevent access thereto by any person whose presence, in the Landlord's judgment, would be prejudicial to the safety, peace, character or reputation of the Building or of any tenant of the Property.
2. The toilet rooms, water closets, sinks, faucets, plumbing and other service apparatus of any kind shall not be used by the Tenant for any purpose other than those for which they were installed, and no sweepings, rubbish, rags, ashes, chemicals or other refuse or injurious substances shall be placed therein or used in connection therewith by the Tenant, or left by the Tenant in the lobbies, passages, elevators or stairways of the Building.
3. No skylight, window, door or transom of the Building shall be covered or obstructed by the Tenant, and no window shade, blind, curtain, screen, storm window, awning or other material shall be installed or placed on any window or in any window space, except as approved in writing by the Landlord. If the Landlord has installed or hereafter installs any shade, blind or curtain in the Premises, the Tenant shall not remove it without first obtaining the Landlord's written consent thereto.
4. No sign, lettering, insignia, advertisement, notice or other thing shall be inscribed, painted, installed, erected or placed in any portion of the Premises which may be seen from outside the Building, or in any window, window space or other part of the exterior or interior of the Building, unless first approved in writing by the Landlord. Names on suite entrances shall be provided by and only by the Landlord and at the Tenant's expense, using in each instance lettering of a design and in a form consistent with the other lettering in the Building, and first approved in writing by the Landlord. The Tenant shall not erect any stand, booth or showcase or other article or matter in or upon the Premises and/or the Building without first obtaining the Landlord's written consent thereto.
5. The Tenant shall not place any additional lock upon any door within the Premises or elsewhere upon the Property, and shall surrender all keys for all such locks at the end of the Term. The Landlord shall provide the Tenant with one set of keys to the Premises when the Tenant assumes possession thereof.
6. The Tenant shall not do or permit to be done anything which obstructs or interferes with the rights of any other tenant of the Property. The Tenant shall not keep anywhere within the Property an matter having an offensive odor, or any kerosene, gasoline, benzine, camphene, fuel or other explosive or highly flammable material. No bird, fish or other animal shall be brought into or kept in or about the Premises.
7. So that the Premises may be kept in a good state of preservation and cleanliness, the Tenant shall, while in possession of the Premises, permit only the Landlord's employees and contractors to clean the Premises unless prior thereto the Landlord otherwise consents in writing. The Landlord shall not be responsible to the Tenant for any damage done to any furniture or other property of the Tenant or any other person caused by any of the Landlord's employees or any other person, for any loss sustained by any of the Tenant's employees, or for any loss of property of any kind in or from the Premises, however occurring. The Tenant shall see each day that the windows are closed and the doors securely locked before leaving the Premises, and that all lights and standard office equipment within the Premises are turned off.
8. If the Tenant desires to install signalling, telegraphic, telephonic, protective alarm or other wires, apparatus or devices within the Premises, the Landlord shall direct where and how they are to be installed and, except as so directed, no installation, boring or cutting shall be permitted. The Landlord shall have the right (a) to prevent or interrupt the transmission of excessive, dangerous or annoying current of electricity or otherwise into or through the Building or the Premises, (b) to require the changing of wiring connections or layout at the Tenant's expense, to the extent that the Landlord may deem necessary, (c) to require compliance with such reasonable rules as the Landlord may establish relating thereto, and (d) in the event of noncompliance with such requirements or rules, immediately to cut wiring or do whatever else it considers necessary to remove the danger, annoyance or electrical interference with apparatus in any part of the Building. Each wire installed by the Tenant must be clearly tagged at each distributing board and junction box and elsewhere where required by the Landlord, with

Spring Mill Lease

the number of the office to which such wire leads and the purpose for which it is used, together with the name of the Tenant or other concern, if any, operating or using it.

9. A directory will be provided by the Landlord on the ground floor of the Building, on which the Tenant's name may be placed.

10. No furniture, package, equipment, supplies or merchandise may be received in the Building, or carried up or down in the elevators or stairways, except during such hours as are designated for such purpose by the Landlord, and only after the Tenant gives notice thereof to the Landlord. The Landlord shall have the exclusive right to prescribe the method and manner in which any of the same is brought into or taken out of the Building, and the right to exclude from the Building any heavy furniture, safe or other article which may create a hazard and to require it to be located at a designated place in the Premises. The Tenant shall not place any weight anywhere beyond and safe carrying capacity of the Building. The cost of repairing any damage to the Building or any other part of the Property caused by taking any of the same in or out of the Premises, or any damage caused while it is in the Premises or the rest of the Building, shall be borne by the Tenant.

11. Without the Landlord's prior written consent, (a) nothing shall be fastened to (and no hole shall be drilled, or nail or screw driven into) any wall or partition (provided, however, that the Landlord shall not unreasonably withhold its consent on such basis in connection with any request by the Tenant to hang ordinary pictures, decorations and wall coverings on the interior walls of the Premises), (b) no wall or partition shall be painted, papered or otherwise covered or moved in any way or marked or broken, (c) no connection shall be made to any electrical wire for running any fan, motor or other apparatus, device or equipment, (d) no machinery of any kind other than customary small business machinery shall be allowed in the Premises, (e) no switchboard or telephone wiring or equipment shall be placed anywhere other than where designed by the Landlord, and (f) no mechanic shall be allowed to work in or about the Building other than one employed by the Landlord.

12. The Tenant shall have access to the Premises at all reasonable times. The Landlord shall in no event be responsible for admitting or excluding any person from the Premises. In case of invasion, hostile attack, insurrection, mob violence, riot, public excitement or other commotion, explosion, fire or any casualty, the Landlord shall have the right to bar or limit access to the Building to protect the safety of occupants of the Property or any property within the Property.

13. The Landlord shall have the right to rescind, suspend or modify these Rules and Regulations and to promulgate such other Rules and Regulations as, in the Landlord's reasonable judgment, are from time to time needed for the safety, care, maintenance, operation and cleanliness of the Building, or for the preservation of good order therein. Upon the Tenant's having been given notice of the taking of any such action, the Rules and Regulations as so rescinded, suspended, modified or promulgated shall have the same force and effect as if in effect at the time at which the Tenant's lease was entered into (except that nothing in the Rules and Regulations shall be deemed in any way to alter or impair any provision of such lease).

14. The use of any room within the Building as sleeping quarters is strictly prohibited at all times.

15. The Tenant shall keep the windows and doors of the Premises (including those opening on corridors and all doors between rooms entitled to receive heating or air conditioning service and rooms not entitled to receive such service), closed while the heating or air conditioning system is operating, in order to minimize the energy used by, and to conserve the effectiveness of, such systems. The Tenant shall comply with all reasonable Rules and Regulations from time to time promulgated by the Landlord with respect to such systems or their use.

16. The Tenant shall not during any period of time use or permit to be used the Premises on a regular basis by more than one (1) person for each one hundred fifty (150) square feet of floor area within the Premises.

17. Nothing in these Rules and Regulations shall give any Tenant any right or claim against the Landlord or any other person if the Landlord does not enforce any of them against any other tenant or person (whether or not the Landlord has the right to enforce them against such tenant or person), and no such non-enforcement with respect to any tenant shall constitute a waiver of the right to enforce them as to the Tenant or any other tenant or person.

AGREEMENT OF LEASE
MODIFICATIONS RIDER

This Rider is attached to and made a part of the Lease made between the Landlord and the Tenant with respect to the Premises. In the event that any of the terms, conditions or provisions of this Rider shall conflict with any of the terms, conditions and provisions of any of the other portions of the Lease, the terms, conditions and provisions of this Rider shall be controlling. The Landlord and the Tenant further agree as follows:

1. Each defined term used in this Rider shall have the definition given to such term in this Rider, or, if no definition is given to such term in this Rider, it shall have the definition given to such term in the other portions of the Lease.

2. Tenant will be responsible for maintenance of the HVAC system through out the term of the lease. Tenant will maintain a service contract calling for servicing of the equipment at least twice per calendar year, with a reputable HVAC service contractor to be approved by Landlord. Landlord will turn the HVAC system over to Tenant in good working order.

3. Landlord will be responsible for any cost for repairs/replacements to the HVAC equipment in excess of \$1,000 per unit per occurrence.

4. The Cost Component of Base Rent, as described in section A of the lease, will be \$19,258.08.

5. The Original Additional Rent Factor, as described in section A of the lease, will be \$2.12 per square foot.



2/3/04

OFFICE SPACE LEASE

for

by and between

DEERFIELD CORPORATE CENTER I ASSOCIATES, L.P.
(as Landlord)

and

USA TECHNOLOGIES, INC.
(as Tenant)

Date: March 28 2003

Suit 140

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THIS LEASE (the "Lease") is made the 28th day of March, 2003 between DEERFIELD CORPORATE CENTER I ASSOCIATES, L.P. (herein referred to as "Landlord") whose address is c/o O'Neill Properties Group, 700 South Henderson Road, Suite 225, King of Prussia, PA 19406, and USA TECHNOLOGIES, INC. (herein referred to as "Tenant") whose address is 200 Plant Avenue, Wayne, PA 19087.

PREAMBLE

BASIC LEASE PROVISIONS AND DEFINITIONS

In addition to other terms elsewhere defined in this Lease, the following terms whenever used in this Lease shall have only the meanings set forth in this Section, unless such meanings are expressly modified, limited or expanded elsewhere in this Lease.

- A. **ADDITIONAL RENT** shall mean all sums in addition to Fixed Basic Rent payable by Tenant to Landlord or to third parties pursuant to the provisions of the Lease.
- B. **ASSOCIATION** shall mean the Deerfield Center Condominium Association formed pursuant to the Declaration of Condominium.
- C. **BROKER(S)** shall mean Strategic Realty Investments, L.L.C. and Corporate Realty Solutions, Inc.
- D. **BUILDING** shall mean the building known as Unit A containing approximately eighty nine thousand nine hundred twelve (89,912) rentable square feet of space as set forth on Exhibit C and located in Deerfield Corporate Center on the Property.
- E. **BUILDING HOLIDAYS** shall be those holidays listed on Exhibit E.
- F. **COMMON AREAS** shall mean those areas shown as common elements on the Plat Plan.
- G. **COMMENCEMENT DATE** shall mean January 1, 2004.
- H. **DECLARATION OF CONDOMINIUM** shall mean shall mean the Declaration of Condominium of Deerfield Center, A Condominium dated December 18, 2001 and recorded in the Land Records of Chester County in Book _____, at page _____, et seq.
- I. **EXHIBITS** shall be the following, attached to this Lease and incorporated in this Lease and made a part of this Lease:

| | |
|-----------|-------------------------------|
| Exhibit A | Premises |
| Exhibit B | Legal Description of Property |
| Exhibit C | Building Measurement |
| Exhibit D | Work Letter |
| Exhibit E | Building Holidays |
| Exhibit F | Janitorial Specifications |
| Exhibit G | Rules and Regulations |

J. **FIXED BASIC RENT** shall be calculated and payable as follows, subject to Landlord's confirmation and adjustment of the rentable square feet contained within the Premises and as adjusted in accordance with Section 6:

| Month of the Term | Rentable Square Feet | Rent Per Rentable Square Foot | Annual Fixed Basic Rent | Monthly Fixed Basic Rent |
|-------------------|----------------------|-------------------------------|-------------------------|--------------------------|
| 1/1/04 - 12/31/04 | 12,864 | \$23.00 | \$295,872.00 | \$24,656.00 |
| 1/1/04 - 12/31/05 | 12,864 | \$23.50 | \$302,304.00 | \$25,192.00 |
| 1/1/05 - 12/31/06 | 12,864 | \$24.00 | \$308,736.00 | \$25,728.00 |
| 1/1/06 - 12/31/07 | 12,864 | \$24.50 | \$315,168.00 | \$26,264.00 |
| 1/1/07 - 12/31/08 | 12,864 | \$25.00 | \$321,600.00 | \$26,800.00 |

K. **OPERATING EXPENSES STOP** shall mean the sum of Four and 50/100 Dollars (\$4.50) per rentable square foot of the Premises.

L. **PERMITTED USE** shall be for general office use, research and development for Tenant's hardware and software products including assembly, inspection, configuration, testing and warranty repairs of the Tenant's products (both hardware and software) and ancillary uses and for no other purpose, subject to all applicable laws and all rules and regulations of the Building, the Declaration of Condominium and insurers of the Building.

M. **PLAT PLAN** shall mean the Condominium Plats and Plans of Deerfield Center, a Condominium, prepared by Momenee and Associates, Inc. dated December 17, 2001 and recorded in the Land Records of Chester County in Plan Book _____, at page _____.

N. **PREMISES** shall be approximately twelve thousand eight hundred sixty four (12,864) rentable square feet on the first level of the Building as set forth on Exhibit A such measurement to be subject to final confirmation and adjustment by Landlord's architect after receipt and approval of final plans for the Premises.

O. **PROPERTY** shall mean the Building and the lot, tract or parcel of land on which the Building is situated and all improvements thereto as more particularly described on Exhibit B attached hereto.

P. **SECURITY DEPOSIT** shall be 70,000 shares of Jubilee Investment Trust plc ("Jubilee Shares") with an aggregate value of no less than One Hundred Thousand Dollars (U.S. \$100,000) which shall be held in accordance with Section 41 of the Lease.

Q. **TARGET DATE** shall be May 16, 2003.

R. TENANT'S PROPORTIONATE SHARE shall mean 14.307 percent, subject to Landlord's confirmation and adjustment of the rentable square feet contained within the Premises.

S. TERM shall mean the period of time commencing on the Delivery Date (as defined in Section 4 of the Lease) and ending on the date which is five (5) years following the Commencement Date, plus the number of days remaining in the calendar month in which such date occurs unless otherwise terminated or extended pursuant to the terms of this Lease.

For and in consideration of the covenants contained in this Lease, and upon the terms and conditions set forth in this Lease, Landlord and Tenant, intending to be legally bound, agree as follows:

- 1. Definitions.** The definitions set forth in the preceding Preamble shall apply to the same capitalized terms appearing in this Lease. Additional definitions are contained in Section 47 and throughout this Lease.
- 2. Premises.** Landlord hereby demises and leases the Premises to Tenant and Tenant hereby leases and takes the Premises from Landlord for the Term and upon the terms, covenants, conditions, and provisions set forth in this Lease, including the Preamble (this "Lease"). The Tenant's interest in the Premises as tenant shall include the right, in common with Landlord and other occupants of the Building and the Property, to use driveways, sidewalks, loading and parking areas, lobbies, hallways, Common Areas and other facilities which are located within the Property and which are designated by Landlord or the Association from time to time for the use of all of the tenants of the Building and the Property (the "Common Facilities").
- 3. Completion of Premises.** The Premises shall be completed in accordance with the Work Letter attached hereto as Exhibit D. If the Premises are not Substantially Completed (as defined in the Work Letter) and delivered to the Tenant on or before the Target Date for any reason, whether or not within Landlord's control, and except as provided in Section 4 below, Landlord shall not be subject to any liability to Tenant and no such failure to deliver the Premises by the Target Date or any other date shall in any respect affect the validity or continuance of this Lease of any obligation of Tenant hereunder or extend the Term.
- 4. Commencement Date.** The Term shall commence on the date (the "Delivery Date") which is the first to occur of (a) the date the Premises are Substantially Completed or (b) the date on which the Premises are actually occupied by Tenant with the Landlord's permission. Notwithstanding the foregoing, in the event the Premises are not Substantially Completed on or before the Target Date due in part or in whole to a Tenant Delay (as defined in the Work Letter), then upon the Delivery Date Tenant shall pay to Landlord the sum of 1/365 of the Fixed Basic Rent and Additional Rent during the first full year of the Term (after any period of free Rent) multiplied by the aggregate number of days of such Tenant Delay. Notwithstanding the foregoing, in the event the Premises are not Substantially Completed on or before June 1, 2003 (as such date may be extended by up to five (5) days in accordance with Section 4(c) of the Work Letter) not due to a Tenant Delay, as defined in the Work Letter, then upon the Delivery Date Tenant shall receive an abatement of Fixed Basic Rent and Additional Rent from Landlord equal to the sum of 1/365 of the Fixed Basic Rent and Additional Rent during the first full calendar year of the Term multiplied by the aggregate number of days of such delay commencing with June 1, 2003 or such later date as provided by Section 4(c) of the Work Letter. Upon Landlord's request, Tenant shall execute the Confirmation of Lease Term attached hereto as Exhibit I.
- 5. Use of Premises.** Tenant shall occupy the Premises throughout the Term and shall use the same for, and only for, the Permitted Use specified in the Preamble. Tenant shall not make, or permit to be made, any unseemly or disturbing noises or odors and shall not interfere with other tenants or those having business with them. Tenant shall keep all mechanical apparatus in the

Premises free of vibration and noise which may be transmitted beyond the limits of the Premises. Tenant's use of the Premises shall include the exclusive right to use the loading ramp directly serving its Premises through double doors (the "Loading Ramp"). Tenant shall not overload any floor or part thereof in the Premises or the Building, including any public corridors or elevators therein.

6. Fixed Basic Rent. Commencing on the Commencement Date, Tenant shall pay, throughout the Term, the annual Fixed Basic Rent in the amount specified in the Preamble, without notice or demand and without setoff or deduction, in equal monthly installments equal to one-twelfth of the annual Fixed Basic Rent (specified as Monthly Installments in the Preamble), in advance, on the first day of each calendar month during the Term. If the Commencement Date falls on a day other than the first day of a calendar month, the Fixed Basic Rent shall be due and payable for such month, apportioned on a per diem basis for the period between the Commencement Date and the first day of the next first full calendar month in the Term and such apportioned sum shall be paid on the Commencement Date. Notwithstanding anything else set forth herein, and subject to the provisions of Section 4 above, Tenant shall not pay to Landlord any Fixed Basic Rent or Additional Rent whatsoever, other than for the costs of utilities pursuant to Section 12 of this Lease, for or on account of the period of time commencing on the Delivery Date and ending on the Commencement Date.

7. Real Estate Taxes and Operating Expenses

a) Definitions. The following terms shall be defined as hereinafter provided:

(i) "Real Estate Taxes" shall mean all taxes, liens, charges, imposts and assessments of every kind and nature, ordinary or extraordinary, foreseen or unforeseen, general or special, levied, assessed or imposed by any governmental authority with respect to the Property, as well as all fees or assessments payable on account of the Property being located in any special services district. Notwithstanding the foregoing:

(1) if at any time during the Term the present system of ad valorem taxation of real property shall be changed or supplemented so that in lieu of or in addition to the ad valorem tax on real property there shall be assessed on Landlord or the Property any tax of any nature which is imposed in whole or in part, in substitution for, addition to, or in lieu of any tax which would otherwise constitute a Real Estate Tax, such tax shall be included within the term "Real Estate Taxes," but only to the extent that the same would be payable if the Property were the only property of Landlord. Such tax may include, but shall not be limited to, a capital levy or other tax on the gross rents or gross receipts with respect to the Property, or a federal, state, county, municipal or other local income, franchise, profit, excise or similar tax, assessment, levy or charge measured by or based, in whole or in part, upon any such gross rents or gross receipts;

(2) Real Estate Taxes shall also encompass all of Landlord's expenses, including but not limited to reasonable attorney's fees and expenses, incurred by Landlord in any effort to minimize Real Estate Taxes whether by contesting proposed increases in assessments, applying for the benefit of any tax abatement program available for the Property, appealing the denial of any such tax abatement, or contesting any challenge to the validity of any tax

abatement program or its applicability to the Property or by any other means or procedures appropriate in the circumstances; provided, however, that under no circumstances shall Landlord have any obligation to undertake any contest, appeal or other procedure to minimize Real Estate Taxes or to obtain or maintain the benefits of any tax abatement program for the Property; and

(3) except as otherwise provided in Subsection 7(a)(i)(1) above, there shall be excluded from Real Estate Taxes all net income, excess profit, excise, franchise, estate, succession and inheritance taxes, penalties due to Landlord's lateness or failure to pay taxes when due and transfer taxes imposed on Landlord.

(ii) "Operating Expenses" shall mean

(1) the expenses incurred by Landlord in connection with the operation, repair, maintenance, protection and management of the Property, including by way of example rather than of limitation, the following:

(a) Wages, salaries, fees and other compensation and payments, payroll taxes, contributions to any social security, unemployment insurance, welfare, pension or similar fund and payments for other fringe benefits made to or on behalf of any and all employees of Landlord to the extent performing services rendered in connection with the operation, repair, maintenance, protection and management of the Property, including, without limitation: elevator operators; elevator starters; window cleaners; porters; janitors; maids; miscellaneous handymen; watchmen; persons engaged in patrolling and protecting the Property; carpenters; engineers; firemen; mechanics; electricians; plumbers; landscapers; insurance risk managers; building superintendent and assistants; property manager; and clerical and administrative personnel. Landlord may contract for any of the foregoing to be performed by independent contractors, in which event all sums paid to such independent contractors shall be included within Operating Expenses pursuant to Subsection 7(a)(ii)(1)(r) below.

(b) The cost of employee uniforms, and the cleaning, pressing and repair thereof.

(c) Cleaning costs for the Property, including the facade, windows and sidewalks, all costs for snow and rubbish removal and the costs of all labor, supplies, equipment and materials incidental to such cleaning.

(d) Premiums and other charges incurred by Landlord with respect to all insurance relating to the Property and the operation and maintenance thereof, including without limitation: all risk of physical damage or fire and extended coverage insurance; public liability insurance; elevator insurance; workmen's compensation insurance; boiler and machinery insurance; sprinkler leakage insurance; rent insurance; and health, accident and group life insurance for employees.

(e) The cost of heat, electricity, gas, water, sewer and all other utility services, servicing the Building generally to the extent not billed directly to Tenant in accordance with Section 12(a) below.

(f) Costs incurred for operation, service, maintenance, inspection, repairs and alterations of the Property, including the heating, air-conditioning, ventilating, plumbing, outdoor underground heating coils, electrical and elevator systems of the Building and the costs of labor, materials, supplies and equipment used in connection with all of the aforesaid items.

(g) Sales and excise taxes and the like upon any of the expenses enumerated herein.

(h) Management fees of the managing agent for the Building, if any.

(i) The cost of tools, equipment and supplies and any replacement thereof reasonably necessary for maintenance, repair, protection, management and operation of the Property.

(j) The cost of repainting or otherwise redecorating any part of the Building other than premises demised to tenants in the Building, and the cost of displays or decorations for the lobby, balconies and other public portions of the Property.

(k) The cost of telephone, telecopier and courier services, postage and delivery charges, office supplies, maintenance and repair of office equipment, and similar costs.

(l) The cost of licenses, permits and similar fees and charges.

(m) Auditing and accounting fees including accounting fees incurred in connection with the preparation and certification of the Tax Statements and the Operating Expense Statements.

(n) All costs incurred by Landlord to comply with governmental requirements, whether federal, state or municipal which first take effect after the Commencement Date.

(o) All costs and expenses associated with the acquisition and installation of any energy or cost saving devices, but only to the extent of anticipated savings.

(p) Real Estate Taxes, as defined above.

(q) All that portion of and privilege tax which is based upon gross "receipts" with respect to the Property and not upon "net income" with respect to the Property, any income or gross receipts tax which is limited to income from real property, miscellaneous taxes (other than Real Estate Taxes) applicable to or assessed by reason of the ownership of the Property and any taxes imposed on personal property in the Building owned by Landlord and used in connection with the Property.

(r) Cost of independent contractors performing services, including, but not limited to, cleaning, janitorial, window-washing, rubbish removal, security, landscaping,

snow and ice removal services, electrical, painting, plumbing, elevator, heating, ventilation and air conditioning maintenance and repair and all fees due such independent contractors.

(s) Reasonable legal fees with respect to the Property other than those incurred in the negotiation or enforcement of tenant leases.

(t) Capital expenditures necessitated by casualties to the extent same are not covered by insurance.

(u) Any and all other expenditures of Landlord, including all repairs, replacements and improvements which are appropriate for the continued operation of the Building as a first class building (including capital expenditures), which are properly expensed in accordance with generally applied real estate accounting practices consistently applied with respect to the operation, repair, maintenance, protection and management of first-class office buildings in the locality of the Building.

(v) If Landlord shall purchase any item of capital equipment or make any capital expenditure as described in Subsections 7(a)(ii)(1)(n), or 7(a)(ii)(1)(o) above (jointly the "Capital Expenditures") then the costs for same shall be amortized on a straight line basis beginning in the year of installation and continuing for the useful life thereof, but not more than twenty (20) years, or such shorter time as may be hereinafter provided, with a per annum interest factor equal to the rate of interest on the date of purchase of any item described in Subsections 7(a)(ii)(1)(n), or 7(a)(ii)(1)(o) above. The amount of amortization for such costs shall be included in Operating Expenses for each Operating Year to which the amortization relates. Tenant agrees that the determination by Landlord's accountants of the useful life of the subject of such Capital Expenditures shall be binding on Tenant. If Landlord shall lease such items of capital equipment, then the lease shall be included in Operating Expenses for each Operating Year in which they are incurred. Notwithstanding the foregoing, if Landlord shall effectuate savings in labor or energy related costs as a result of the installation of new devices or equipment, then Landlord shall, in lieu of the above, include up to the full amount of any such savings in each Operating Year (beginning with the Operating Year in which the equipment is placed in service) as an Operating Expense until Landlord has recovered thereby the cost of installation of said devices or equipment and interest thereon as above provided, even if the result of such application will result in the amortization of such costs over a period shorter than the useful life of such installation. Landlord shall notify Tenant in writing if Landlord applies such savings to the cost of such equipment and shall include a statement of the amount of such savings in the Operating Expense Statement for each applicable Operating Year. Operating Expenses shall thereafter be reduced by the amount of any previous capital expenditures included therein expensed pursuant to this Subsection 7(a)(ii)(1)(v) when such amortization has been completed.

(w) Any expenses, costs or assessments assessed against or allocated to the Building or Premises pursuant to the terms of the Declaration of Condominium in connection with the ownership, operation and maintenance of the Property.

(2) Operating Expenses shall be "net" and, for that purpose, shall be reduced by the amounts of any reimbursement or credit received by Landlord with respect to an

item of cost that is included within Operating Expenses (other than reimbursements to Landlord by tenants of the Building pursuant either to operating expense provisions of any lease or separate contractual arrangements).

(3) With respect to the second (2nd) Operating Year during the Term and thereafter throughout the Term, Operating Expenses (exclusive of Real Estate Taxes, the cost of insurance and the cost of snow and ice removal) shall not be greater than one hundred and five percent (105%) of the Operating Expenses (exclusive of Real Estate Taxes, the cost of insurance and the cost of snow and ice removal) for the preceding Operating Year.

(4) In determining Operating Expenses for any Operating Year, including the Operating Expenses Base Year, during which less than one hundred percent (100%) of the rentable area of the Building shall have been occupied by tenants for more than thirty (30) days during such year, the actual Operating Expenses for such year that vary with occupancy and use shall be increased to the amount which normally would have been incurred for such Operating Year had such occupancy of the Building been one hundred percent (100%) throughout such Operating Year, as reasonably determined by Landlord. Notwithstanding the foregoing, in no event shall Landlord receive more than one hundred percent (100%) of the Building's actual Operating Expenses as a result of the operation of this Subsection 7(a)(ii)(4) or otherwise.

(5) Notwithstanding the provisions of Section 7(a)(ii)(1), "Operating Expenses" shall not include expenditures for any of the following:

(a) Any capital addition made to the Building, including the cost to prepare space for occupancy by a new tenant, except as set forth in Subsections 7(a)(ii)(1)(n), or 7(a)(ii)(1)(o) above.

(b) Repairs or other work occasioned by fire, windstorm or other insured casualty or hazard, to the extent that Landlord shall receive proceeds of such insurance.

(c) Leasing commissions and advertising expenses incurred in leasing or procuring new tenants.

(d) Repairs or rebuilding necessitated by condemnation to the extent that Landlord has received condemnation proceeds for such repairs or rebuilding.

(e) Depreciation and amortization of the Building, other than as permitted pursuant to Subsection 7(a)(ii)(1)(v).

(f) The salaries and benefits of executive officers of Landlord, if any, and Landlord's general corporate overhead relating solely to the internal organization and function of Landlord as a business entity, as opposed to the operation, management, maintenance, repair and security of the Property.

(g) Debt service payments on any indebtedness applicable to the Property, including any mortgage debt.

(h) Costs and expenses of special services rendered to particular tenants of the Property or that exclusively benefit another tenant or tenants of the Property, and which are of a type or quantity which Tenant is not entitled to receive (and does not receive).

(i) Any costs or penalties paid by Landlord due to the violation by Landlord of the terms of any lease pertaining to the Property.

(j) Allowances and other costs and expenses incurred in fixturing, furnishing, renovating, or otherwise improving, decorating or redecorating space for tenants or prospective tenants of the Building, or vacant leasable space in the Building.

(iii) "Operating Year" shall mean each calendar year, or such other period of twelve (12) months as hereafter may be reasonably adopted by Landlord as its fiscal year, occurring either in whole or in part during the Term.

(iv) "Operating Expense Statement" shall mean a statement provided by Landlord, setting forth in reasonable detail: (a) the Operating Expenses for the Operating Year (or portion thereof if less than a full Operating Year) immediately preceding the Operating Year in which the statement is issued, reasonably detailed by major categories, (b) the Tenant's Expense Payment (defined in Subsection 7(b)) for such preceding Operating Year, prorated if only a part of the Operating Year falls within the Term, (c) the amount of payments made by Tenant on account of the Tenant's Expense Payment during such preceding Operating Year, (d) the amount of payments of the Monthly Operating Expense Estimate (defined in Subsection 7(b)(i)(1)) made to date by Tenant in the Operating Year in which the Expense Statement is issued, and (e) the Monthly Operating Expense Estimate for the Operating Year in which the Operating Expense Statement is issued.

(v) "Monthly Operating Expense Estimate" shall have the meaning specified in Subsection 7(b)(i)(1) hereof.

b) **Tenant's Expense Payment.** Commencing on the Commencement Date, Tenant shall pay to Landlord as Additional Rent hereunder an amount equal to Tenant's Proportionate Share of the total dollar excess, if any, in Operating Expenses for such Operating Year over the Operating Expenses Stop ("Tenant's Expense Payment"). For any portion of an Operating Year less than a full twelve (12) month period occurring within the Term, Tenant's Expense Payment shall be prorated on a per diem basis.

(i) Such Additional Rent shall be paid (or credited) in the following manner:

(1) Beginning on the Commencement Date, and continuing thereafter during each Operating Year during the Term on the first day of each month until receipt of the next Operating Expense Statement, Tenant will pay Landlord an amount set by Landlord sufficient to pay Landlord's estimate (reasonably based on the actual Operating Expenses for the preceding Operating Year and Landlord's projections of any anticipated increases or decreases thereof) of Tenant's Expense Payment for the current Operating Year (or remaining portion thereof) (the "Monthly Operating Expense Estimate"). The Monthly Operating Expense Estimate for a period less than a full calendar month shall be duly prorated.

(2) Following the end of each Operating Year, Landlord shall furnish Tenant an Operating Expense Statement setting forth the information described in Subsection 7(a)(iv) above. Within fifteen (15) days following the receipt of such Operating Expense Statement (the "Expense Share Date") Tenant shall pay to Landlord: (i) the amount by which the Tenant's Expense Payment for the Operating Year (or portion thereof) covered by the Operating Expense Statement exceeds the aggregate of Monthly Operating Expense Estimates paid by Tenant with respect to such Operating Year (or portion thereof); and (ii) the amount by which the Monthly Operating Expense Estimate for the current Operating Year as shown on the Operating Expense Statement multiplied by the number of months elapsed to date in the current Operating Year (including the month in which payment is made) exceeds the aggregate amount of payments of the Monthly Operating Expense Estimate theretofore made in the Operating Year in which the Operating Expense Statement is issued. Landlord shall diligently endeavor to furnish Tenant an Operating Expense Statement not later than one hundred and fifty (150) days following the end of each Operating Year.

(3) On the first day of the first month following receipt by Tenant of any annual Operating Expense Statement and continuing thereafter on the first day of each succeeding month until the issuance of the next ensuing Operating Expense Statement, Tenant shall pay Landlord the amount of the Monthly Operating Expense Estimate shown on the Operating Expense Statement.

(4) If on any Expense Share Date Tenant's payments of the installments of the Monthly Operating Expense Estimate for the preceding year's Operating Expenses are greater than Tenant's Expense Payment for such preceding Operating Year, Landlord shall credit Tenant with any excess, which credit may be offset by Tenant against next due installments of Rent. If the Term expires prior to the Expense Share Date for the applicable Operating Year and if Tenant's payments of Monthly Operating Expense Estimate either exceed or are less than Tenant's Expense Payment, Landlord shall send the Operating Expense Statement to Tenant, and an appropriate payment from Tenant to Landlord or refund from Landlord to Tenant shall be made on the Expense Share Date. The provisions of this Subsection 7(b)(i)(4) shall remain in effect notwithstanding any termination of this Lease; provided however, that if upon termination of this Lease Tenant owes Landlord any sums under this Lease (for Rent or otherwise), Landlord shall have the right to reduce the amount of any refund due Tenant under this Section 7(b)(i)(4) against such sums owed by Tenant to Landlord.

(ii) Any Operating Expense Statement or other notice from Landlord pursuant to this Section 7 shall be deemed approved by Tenant as correct unless, within ninety (90) days after the furnishing thereof, Tenant shall notify Landlord in writing that it desires to audit Landlord's determination of Operating Expenses as provided Subsection 7(c) below. Notwithstanding any dispute concerning any Operating Expense Statement or other notice, Tenant shall continue to make payments in accordance with said Operating Expense Statement or other notice pending the resolution of such dispute.

c) **Tenant's Personalty.** Tenant shall pay all taxes imposed upon Tenant's furnishings, trade fixtures, equipment or other personal property.

8. Intentionally Omitted.

9. Interest and Late Charge. Landlord may charge a late payment charge of five percent (5%) of any installment of Fixed Basic Rent or Additional Rent that is not paid within ten (10) days of the due date thereof. Any amount due from Tenant to Landlord which is not paid when due shall bear interest ("Interest") at an interest rate equal to the Prime Rate published from time to time in the Money Rates column of the Wall Street Journal plus 2% (or, if lower, the highest rate then allowed under the usury laws of the Commonwealth of Pennsylvania) from the date due until the date paid. The right of Landlord to charge a late charge and interest with respect to past due installments of Fixed Basic Rent and Additional Rent is in addition to Landlord's rights and remedies upon an event of default.

10. Insurance.

a) Tenant's Insurance.

(i) Tenant covenants and represents, such covenants and representations being specifically designed to induce Landlord to execute this Lease, that during the entire Term, at its sole cost and expense, Tenant shall obtain, maintain and keep in full force and effect the following insurance:

(1) "All Risk" property insurance against fire, theft, vandalism, malicious mischief, sprinkler leakage and such additional perils as are now, or hereafter may be, included in a standard extended coverage endorsement from time to time in general use in the Commonwealth of Pennsylvania upon property of every description and kind owned by Tenant and or under Tenant's care, custody or control located in the Building, the Property or within the Premises or for which Tenant is legally liable or installed by or on behalf of Tenant, including by way of example and not by way of limitation, furniture, fixtures, fittings, installations and any other personal property (but excluding the work done by Landlord in connection with Exhibit D which is owned by Landlord) in an amount equal to the full replacement cost thereof.

(2) Commercial General Liability Insurance coverage to include personal injury, bodily injury, broad form property damage, operations hazard, owner's protective coverage, contractual liability, products and completed operations liability naming Landlord and Landlord's mortgagee or trust deed holder and ground lessors (if any) as additional named insureds in limits of not less than One Million Dollars (\$1,000,000.00).

(3) Business interruption insurance in such amounts as will reimburse Tenant for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent tenants or assumed by Tenant pursuant to this Lease or attributable to prevention or denial of access to the Premises or Building as a result of such perils.

(4) Workers' Compensation insurance in form and amount as required by law.

(5) Any other form or forms of insurance or any increase in the limits of any of the aforesaid enumerated coverages or other forms of insurance as Landlord or the mortgagees or ground lessors (if any) of Landlord may reasonably require from time to time if in the reasonable opinion of Landlord or said mortgagees or ground lessors said coverage and/or

limits become inadequate or less than that commonly maintained by prudent tenants in similar buildings in the area by tenants making similar uses.

(ii) All property insurance policies shall be taken out with insurers rated A+XV (or if such ratings are not in effect, the equivalent thereof) by Best Rating Service, or any successor thereto (or if there be none, an organization having a National reputation) who are licensed to do business in the state in which the Property is located and shall be in form satisfactory from time to time to Landlord. A policy or certificate evidencing such insurance together with a paid bill shall be delivered to Landlord not less than fifteen (15) days prior to the Commencement Date hereof. Such insurance policy or certificate will provide an undertaking by the insurers to notify Landlord and the mortgagees or ground lessors (if any) of Landlord in writing not less than thirty (30) days prior to any material change, reduction in coverage, cancellation, or other termination thereof. Should a certificate of insurance initially be provided a policy shall be furnished by Tenant within thirty (30) days of the Commencement Date. The aforesaid insurance shall be written with no deductible.

(iii) In the event of damage to or destruction of the Building and/or Premises entitling Landlord or Tenant to terminate this Lease pursuant to Section 15 of this Lease, and if this Lease be so terminated, Tenant shall immediately pay to Landlord all of its insurance proceeds, if any, relating to the leasehold improvements and alterations (but not Tenant's trade fixtures, equipment, furniture or other personal property of Tenant in the Premises) which have become Landlord's property on installation or would have become Landlord's property at the Term's expiration or sooner termination. If the termination of the Lease, at Landlord's election, is due to damage to the Building, and if the Premises have not been so damaged, Tenant will deliver to Landlord, in accordance with the provisions of this Lease, the improvements and alterations to the Premises which have become an installation or would have become at the Term's expiration, Landlord's property.

(iv) Tenant agrees that it will not keep or use or offer for sale (if sales of goods is a permitted use pursuant to this Lease) in or upon the Premises or within the Property any article which may be prohibited by any insurance policy in force from time to time covering the Property or Premises. In the event Tenant's occupancy or conduct of business in or on the Premises or Property, whether or not Landlord has consented to the same, results in any increase in premiums for insurance carried from time to time by Landlord with respect to the Building, the Property or the Premises, Tenant shall pay such increase in premiums as Additional Rent within ten (10) days after being billed therefor by Landlord. In determining whether increased premiums are a result of Tenant's use and occupancy a schedule issued by the organization computing the insurance rate on the Property or Premises showing the components of such rate shall be conclusive evidence of the items and charges making up such rate. Tenant shall promptly comply with all reasonable requirements of the insurance authority or of any insurer now or hereafter in effect relating to the Building, the Property or Premises.

(v) If any insurance policy carried by either party as required by this Section 10 shall be cancelled and if Tenant fails to remedy the conditions giving rise to such cancellation or threatened cancellation or reduction in coverage on or before (i) forty-eight (48) hours after notice thereof from Landlord, or (ii) prior to such cancellation or reduction becoming

effective, Tenant shall be in default and an event of default shall occur under this Lease and Landlord shall have all of the remedies available to Landlord pursuant to this Lease.

b) **Landlord's Insurance.** Landlord covenants and agrees that throughout the Term it will insure the Property and the Building (excluding any property with respect to which Tenant is obligated to insure pursuant to Subsection 10(a)(i)(1) above) against damage by fire and standard extended coverage perils and public liability insurance in such reasonable amounts with such reasonable deductibles as required by any mortgagee or ground lessor, or, if none, as would be carried by a prudent owner of a similar building in the area and in any event no less than the current replacement value of the Building. In addition, Landlord shall maintain and keep in force and effect during the Term, rental income insurance insuring Landlord against abatement or loss of Fixed Basic Rent, including items of Additional Rent, in case of fire or other casualty similarly insured against, in an amount at least equal to the Fixed Basic Rent and Additional Rent during, at the minimum, one lease year hereunder. Landlord may, but shall not be obligated to, take out and carry any other forms of insurance as it or the mortgagee or ground lessor (if any) of Landlord may require or reasonably determine available. All property insurance policies shall be taken out with insurers rated [A+XV] (or if such ratings are not in effect, the equivalent thereof) by Best Rating Service, or any successor thereto (or if there be none, an organization having a National reputation) who are licensed to do business in the state in which the Property is located. The cost of all insurance carried by Landlord on the Building or otherwise allocated to the Building under the Declaration and the Property shall be included as an Operating Expenses pursuant to Section 8. Notwithstanding its inclusion as an Operating Expense or any contribution by Tenant to the cost of insurance premiums by Tenant as provided herein, Tenant acknowledges that it has no right to receive any proceeds from any such insurance policies carried by Landlord although Landlord shall use such proceeds in the repair and reconstruction of the Building, the Property and the Premises. Tenant further acknowledges that the exculpatory provisions of this Lease as set forth in Section 47 and the provisions of this Section 10 as to Tenant's insurance are designed to insure adequate coverage as to Tenant's property and business without regard to fault and avoid Landlord obtaining similar coverage for such loss for its negligence or that of its agents, servants or employees which would result in double coverage for the same perils includable as part of Operating Expenses which are payable in part by Tenant. Landlord will not carry insurance of any kind on Tenant's furniture or furnishings, or on any fixtures, equipment, appurtenances or improvements of Tenant under this Lease, and Landlord shall not be obligated to repair any damage thereto or replace the same.

c) **Waiver of Subrogation.** Any policy or policies of fire, extended coverage or similar casualty insurance, which either party obtains in connection with the Premises, Building or Property shall include a clause or endorsement denying the insurer any rights of subrogation against the other party (i.e. Landlord or Tenant) for all perils covered by such policy. Should such waiver not be available then the policy for which the waiver is not available must name the other party as an additional named insured affording it the same coverage as that provided the party obtaining such coverage. Any provision of this Lease to the contrary notwithstanding, Landlord and Tenant hereby release the other from any and all liability or responsibility to the other or anyone claiming through or under them by way of subrogation or otherwise (a) from any and all liability for any loss or damage to the property of the releasing party, (b) for any loss or damage that may result, directly or indirectly, from the loss or damage to such property (including rental value and business interruption), and (c) from legal liability for any loss or

damage to property (no matter who the owner of the property may be), all to the extent that the releasing party's loss or damage is insured or, if not insured, was insurable under commercially available "all risk" property insurance policies, including additional coverages typically obtained by owners and tenants of comparable office buildings in the vicinity of the Building, even if such loss or damage or legal liability shall be caused by or result from the fault or negligence of the other party or anyone for whom such party may be responsible and even if the releasing party is self insured in whole or in part or the amount of the releasing party's insurance is inadequate to cover the loss or damage or legal liability. It is the intention of the parties that Landlord and Tenant shall look solely to their respective insurance carriers for recovery against any such property loss or damage or legal liability, without such insurance carriers having any rights of subrogation against the other party.

11. Repairs and Maintenance.

a) Tenant shall, throughout the Term, and at Tenant's sole cost and expense, keep and maintain the Premises in a neat and orderly condition; and, upon expiration of the Term or earlier termination of this Lease, Tenant shall leave the Premises in good order and condition, ordinary wear and tear, damage by fire or other casualty alone excepted, and for that purpose and except as stated in this sentence, Tenant will make all necessary repairs and replacements to the Premises to deliver it in such condition. Tenant shall not permit any waste, damage or injury to the Premises. Tenant shall not use or permit the use of any portion of the Common Facilities for other than their intended use as specified by the Landlord from time to time or as specified by the Declaration.

b) Landlord shall, throughout the Term, make all necessary repairs to the structural elements and Building operating systems and exterior windows and doors of the Premises and other improvements located on the Property; provided, however, that Landlord shall have no responsibility to make any repairs unless and until Landlord receives notice of the need for such repair. Landlord shall keep and maintain all Common Facilities of the Property and any sidewalks, parking areas, curbs and access ways adjoining the Property in a clean and orderly condition, free of accumulation of dirt and rubbish and shall keep and maintain all landscaped areas within the Property in a neat and orderly condition.

c) Notwithstanding the foregoing, repairs and replacements to the Premises and the Property arising out of or caused by Tenant's use, manner of use or occupancy of the Premises, by Tenant's installation of alterations, additions, improvements, trade fixtures or equipment in or upon the Premises or by any act or omission of Tenant or any employee, agent, contractor or invitee of Tenant shall be made at Tenant's sole cost and expense and Tenant shall pay Landlord the cost of any such repair or replacement, as Additional Rent, upon demand..

12. Utilities and Services.

a) Landlord shall furnish the Premises with electricity, heating and air conditioning for the normal use and occupancy of the Premises as general offices between 8:00 a.m. and 6:00 p.m., Monday through Friday, 9:00 a.m. to 1:00 p.m. on Saturdays ("Business Hours"), of each week during the Term (Building Holidays excepted). Tenant agrees to pay monthly as Additional Rent all charges for electricity, light, heat or other utility (other than water and sewer)

used by Tenant at the Premises. If a separate meter is installed, Tenant shall pay for the consumption of such utilities based upon its metered usage. If no meter is installed, Tenant shall pay its pro rata share of any utility charges covering the Premises and the other portions of the Building as equitably allocated among such areas. If not directly metered or submetered to Tenant, any air conditioning or heat required by Tenant at times other than during Business Hours shall be billed to Tenant pro-rata in accordance with Landlord's then-current schedule of costs and assessments therefor, and paid by Tenant with the next installment of Rent. In addition, Tenant agrees to pay as Additional Rent its pro rata share of all charges for electricity, light, or other utility (other than water and sewer) used generally at the Property (i.e. not within tenant occupied premises of the Building) or allocated to the Building pursuant to the Declaration. Tenant shall pay all bills for separately metered utility usage within ten (10) days after receipt thereof, and any non-payment or late payment of such utility bills shall be deemed a default under the terms of this Lease. All charges for installation and repairs of any meters servicing the Premises shall be payable by Tenant as Additional Rent and shall be paid when the same shall become due. Tenant's use of electric energy in the Premises shall not at any time exceed the safe capacity of any of the electric conductors and equipment in or otherwise serving the Premises. If Tenant shall require electricity or install electrical equipment using current in excess of 110 volts or which will in any way increase the amount of electricity furnished by Landlord for general office use (including but not limited to electrical heating or refrigeration equipment or electronic data processing machines) or if Tenant shall attempt to use the Premises in such a manner that the services to be furnished by Landlord are required during periods other than the business hours specified above, Tenant will obtain prior written approval from Landlord and will pay, as Additional Rent, for the resulting additional direct expense to Landlord, including the expense resulting from the installation of any equipment and meters, promptly upon receipt of an invoice from Landlord.

b) Landlord shall replace light bulbs, tubes and ballasts for Building Standard lighting fixtures as set forth in the Tenant Improvements when required in the Premises. The cost of replacement light bulbs, tubes, lamps, and ballasts, plus the costs incurred by Landlord for such replacement, shall be paid by Tenant as Additional Rent in accordance with Landlord's then-current schedule of costs and assessments therefor.

c) Within the Common Facilities of the Building, Landlord shall furnish reasonably: (i) adequate electricity, (ii) hot and cold water, (iii) lavatory supplies, (iv) automatically operated elevator service, (v) normal and customary cleaning services (on a five-day a week basis except for Building Holidays) after Business Hours, (vi) heat and air conditioning in season, (vii) landscaping, (viii) parking lot maintenance, (ix) Common Facilities maintenance, (x) snow and ice removal and (xi) a directory board in the Building lobby which shall list Tenant's name. Landlord shall provide janitorial service to the Premises in accordance with the Janitorial Specifications attached hereto as Exhibit F, five days per week except for Building Holidays, after Business Hours. The cost of the services provided by Landlord pursuant to this subsection 12(c) shall be included as part of Operating Expenses. Any additional services requested by Tenant which are not provided to all the tenants of the Building shall be paid by Tenant in accordance with invoices therefor as Additional Rent but shall not be included as part of Operating Expenses.

d) Landlord shall not be liable for any damages to Tenant resulting from the quality,

quantity, failure, unavailability or disruption of any services beyond the reasonable control of Landlord and the same shall not constitute a termination of this Lease or an actual or constructive eviction or entitle Tenant to an abatement of rent. Landlord shall not be responsible for providing any services not specifically provided for in this Lease. Notwithstanding anything to the contrary contained herein, if the Premises are rendered untenantable in whole or in part, for a period of five (5) consecutive days, due to Landlord's failure to provide any services required hereunder which are within Landlord's reasonable ability to control, unless caused by the neglect of Tenant or Tenant's agents, servants, visitors or licensees, there shall be a proportionate abatement of Rent from and after said fifth (5th) consecutive day and continuing for such period of untenantability.

13. Governmental Regulations. Landlord and Tenant shall comply with all laws, ordinances, notices, orders, rules, regulations and requirements of all federal, state and municipal government or any department, commission, board of officer thereof, or of the National Board of Fire Underwriters or any other body exercising similar functions, relating to the Premises or to the use or manner of use of the Property. Tenant shall not knowingly do or commit, or suffer to be done or committed anywhere in the Building, any act or thing contrary to any of the laws, ordinances, regulations and requirements referred to in this Section. Tenant shall give Landlord prompt written notice of any accident in the Premises and of any breakage, defect or failure in any of the systems or equipment servicing the Premises or any portion of the Premises. Landlord shall ensure that the Building complies with all requirements of the Americans With Disabilities Act.

14. Signs. Except for signs which are located wholly within the interior of the Premises and which are not visible from the exterior of the Premises, Tenant shall not place, erect, maintain or paint any signs upon the Premises or the Property unless the design of such signs are approved by Landlord in writing and comply with all applicable governmental rules, regulating ordinances or other statutes. Tenant shall be solely responsible for all costs and expenses associated with the erection of any signs upon the Premises and shall be obligated to obtain and provide to Landlord any and all necessary permits prior to the placement or erection of such signs. Tenant may install signage which indicates location of shipping and receiving areas at rear entrance to the Premises, subject to Landlord's approval, not to be unreasonably withheld, conditioned or delayed. Notwithstanding the foregoing, in the event Landlord elects in its sole discretion to install a Building monument sign which identifies multiple tenants of the Building, then Tenant shall be permitted, at its sole cost and expense, to place its name on such monument sign so long as the design of same is reasonably acceptable to Landlord.

15. Alterations, Additions and Fixtures.

a) Tenant shall have the right to install in the Premises any trade fixtures including, but not limited to, modular office furniture (attached or otherwise) and networking equipment; provided, however, that no such installation and no removal thereof shall be permitted which affects any structural component or operating system of the Building or Premises and that Tenant shall repair and restore any damage or injury to the Premises or the Property caused by installation or removal.

b) Tenant shall not make or permit to be made any alterations, improvements or additions to the Premises or Property without obtaining Landlord's prior consent, which shall not be unreasonably withheld or delayed, but may be conditioned upon compliance with reasonable requirements of Landlord as provided in this Lease. If Landlord consents to any proposed alterations, improvements or additions, then Tenant at Tenant's sole cost and expense, may make the proposed alterations, improvements and additions provided that: (i) Tenant supplies any necessary permits; (ii) such alterations and improvements do not, in Landlord's judgment, impair the structural strength of the Building or any other improvements or reduce the value of the Property and are at least equal in quality to the Minimum Standard Tenant Improvements; (iii) Tenant takes or causes to be taken all steps that are otherwise required by Section 16 of this Lease and that are required or permitted by law in order to avoid the imposition of any mechanic's, laborer's or materialman's lien upon the Premises or the Property; (iv) the occupants of the Building are not materially disturbed by such work; (v) the alterations, improvements or additions shall be installed in accordance with the approved plans and specifications and completed according to a construction schedule approved by Landlord; and (vi) Tenant provides insurance of the types and coverage amounts required by Landlord. Any and all alterations, improvements and additions to the Premises which are constructed, installed or otherwise made by Tenant shall be the property of Tenant until the expiration or sooner termination of this Lease; at that time all such alterations and additions shall remain on the Premises and become the property of Landlord without payment by Landlord unless at the time Landlord approved of same, Landlord advised Tenant that upon termination of this Lease, Tenant would be required to remove same. Notwithstanding anything to the contrary contained in this Lease, Landlord may withhold its approval to any proposed alterations, additions or improvements to the Premises in its absolute and sole discretion with respect to any such alteration, addition or improvement which Landlord determines involves any modification to the Building's exterior or its structural, electrical, mechanical or plumbing systems, or any components thereof.

16. Mechanic's Liens. Tenant shall promptly pay any contractors and materialmen who supply labor, work or materials to Tenant at the Premises or the Property so as to minimize the possibility of a lien attaching to the Premises or the Property. Tenant shall take all steps permitted by law in order to avoid the imposition of any mechanic's, laborer's or materialman's lien upon the Premises or the Property. Should any such lien or notice of lien be filed for work performed for Tenant other than by Landlord, Tenant shall cause such lien or notice of lien to be discharged of record by payment, deposit, bond or otherwise within fifteen (15) days after the filing thereof or after Tenant's receipt of notice thereof, whichever is earlier, regardless of the validity of such lien or claim. If Tenant shall fail to cause such lien or claim to be discharged and removed from record within such fifteen (15) day period, then, without obligation to investigate the validity thereof and in addition to any other right or remedy Landlord may have, Landlord may, but shall not be obligated to, contest the lien or claim or discharge it by payment, deposit, bond or otherwise; and Landlord shall be entitled to compel the prosecution of an action for the foreclosure of such lien by the lienor and to pay the amount of the judgment in favor of the lienor with interest and costs. Any amounts so paid by Landlord and all costs and expenses including, without limitation, attorneys' fees incurred by Landlord in connection therewith, together with Interest from the respective dates of Landlord's making such payment or incurring such cost or expense, which shall constitute Additional Rent payable under this Lease promptly upon demand therefor. Nothing in this Lease is intended to authorize Tenant to do or cause any work or labor to be done or any materials to be supplied for the account of Landlord, all of the

same to be solely for Tenant's account and at Tenant's risk and expense. Further, notwithstanding anything to the contrary contained in this Lease, nothing contained in or contemplated by this Lease shall be deemed or construed in any way to constitute the consent or request by Landlord for the performance of any work or services or the furnishing of any materials for which any lien could be filed against the Premises, the Building or the Property or any part of any thereof, nor as giving Tenant any right, power or authority to contract or permit the performance of any work or services or the furnishing of any materials within the meaning of 49 P.S. Sections 1101-1902, as amended, or under the Contractor and Subcontractor Payment Act or any amendment thereof or otherwise for which any lien could be filed against the Premises, the Building, the Property or any part of any thereof. Throughout this Lease the term "mechanic's lien" is used to include any lien, encumbrance or charge levied or imposed upon the Premises, the Building or the Property or any interest therein or income therefrom on account of any mechanic's, laborer's or materialman's lien or arising out of any debt or liability to or any claim or demand of any contractor, mechanic, supplier, materialman or laborer and shall include without limitation any mechanic's notice of intention given to Landlord or Tenant, any stop order given to Landlord or Tenant, any notice of refusal to pay naming Landlord or Tenant and any injunctive or equitable action brought by any person entitled to any mechanic's lien.

17. Landlord's Right of Entry.

a) Tenant shall permit Landlord and the authorized representatives of Landlord and of any mortgagee or any prospective mortgagee to enter the Premises at all reasonable times, with prior notice to Tenant, for the purpose of (i) inspecting the Premises or (ii) making any necessary repairs to the Premises or to the Building and performing any work or construction activities therein. During the progress of any work on the Premises or the Building, Landlord will attempt not to inconvenience Tenant, but shall not be liable for inconvenience, annoyance, disturbance, loss of business or other damage to Tenant by reason of making any repair or by bringing or storing materials, supplies, tools and equipment in the Premises during the performance of any work, and the obligations of Tenant under this Lease shall not be thereby affected in any manner whatsoever; provided, however, Landlord shall be liable for damages caused to persons and property arising out of Landlord's grossly negligent actions or willful misconduct during the progress of any work entry, access, inspection, by it on the Premises or the Building.

b) Landlord shall have the right at all reasonable times, with prior notice to Tenant, to enter and to exhibit the Premises for the purpose of inspection or showing the Premises in connection with a sale or mortgage and, during the last twelve (12) months of the Term, to enter upon and to exhibit the Premises to any prospective tenant.

c) If the Premises are vacated or abandoned by Tenant, Landlord shall be permitted to show the Premises at any time and to prepare the Premises for re-occupancy.

18. Damage by Fire or Other Casualty.

a) If the Premises or Building is damaged or destroyed by fire or other casualty, Tenant shall promptly notify Landlord whereupon Landlord shall, subject to the consent of Landlord's present or future mortgagee and to the conditions set forth in this Section 18, repair, rebuild or replace such damage and restore the Premises to substantially the same condition as the Premises

were in immediately prior to such damage or destruction; provided, however, that Landlord shall only be obligated to restore such damage or destruction to the extent of the proceeds of fire and other extended coverage insurance policies. Landlord shall provide Tenant with notice of how long the repair and restoration of the Premises is anticipated to take within ninety (90) days following the date of such fire or other casualty. Notwithstanding the foregoing, if the Premises is destroyed or damaged to the extent that in Landlord's reasonable judgment the Premises cannot be repaired or restored within one hundred eighty (180) days after the date of such casualty, either Tenant or Landlord may terminate this Lease by written notice to the other.

b) The repair, rebuilding or replacement work shall be commenced promptly and completed with due diligence, taking into account the time required by Landlord to effect a settlement with, and procure insurance proceeds from, the insurer, and for delays beyond Landlord's reasonable control.

c) The net amount of any insurance proceeds recovered by reason of the damage or destruction of the Building (meaning the gross insurance proceeds excluding proceeds received pursuant to a rental coverage endorsement and the cost of adjusting the insurance claim and collecting the insurance proceeds) shall be applied towards the cost of restoration. Notwithstanding anything to the contrary in this Lease, if in Landlord's sole opinion the net insurance proceeds will not be adequate to complete such restoration, Landlord shall have the right to terminate this Lease and all the unaccrued obligations of the parties hereto by sending a written notice of such termination to Tenant specifying a termination date no less than ten (10) days after its transmission; provided, however, that Tenant may require Landlord, except during the last two (2) years of the Term, to withdraw the notice of termination by agreeing to pay the cost of restoration in excess of the net insurance proceeds and by giving Landlord adequate security for such payment prior to the termination date specified in Landlord's notice of termination. If the net insurance proceeds are more than adequate, the amount by which the net insurance proceeds exceed the cost of restoration will be retained by Landlord or applied to repayment of any mortgage secured by the Premises.

d) Landlord's obligation or election to restore the Premises under this Section or to terminate this Lease shall be subject to the terms of any present or future mortgage affecting the Premises and to the mortgagee's consent if required in the mortgage and shall not, in any event, include the repair, restoration or replacement of the fixtures, improvements, alterations, furniture or any other property owned, installed, made by, or in the possession of Tenant.

e) If Tenant is dispossessed of the Premises due to fire or other casualty, Tenant will receive an abatement of its Fixed Basic Rent during the period Tenant is dispossessed to the extent of payments received by Landlord from the carrier providing the rental coverage endorsement.

19. Non-Abatement of Rent. Except as otherwise expressly provided in Section 4, Section 12(d), Subsection 18(e) and as to condemnation in Subsections 21(a) and (b) there shall be no abatement or reduction of the Fixed Basic Rent, Additional Rent or other sums payable under this Lease for any cause whatsoever and this Lease shall not terminate, nor shall Tenant be entitled to surrender the Premises, in the event of fire, casualty or condemnation or any default by Landlord under this Lease.

20. Indemnification.

a) Unless such loss, costs or damages are caused by negligence or willful misconduct of Landlord, its employees, agents or contractors, Tenant hereby agrees to indemnify, defend and hold the Landlord and its employees, agents and contractors harmless from any loss, costs and damages (including reasonable attorney's fees and costs) suffered by Landlord, its agents, employees or contractors, as a result of any claim by a third party, its agents, employees or contractors arising from Tenant's use or occupancy of the Premises. Tenant shall have the right to designate counsel reasonably acceptable to Landlord, such approval not to be unreasonably withheld, conditioned or delayed, to assume the defense of any such third party claim on behalf of itself and Landlord. Landlord shall not have the right to settle any claim without the consent of Tenant. This indemnity shall survive the expiration of the Term or earlier termination of this Lease.

b) Unless such loss, costs or damages were caused by negligence or willful misconduct of Tenant, its employees, agents or contractors, Landlord hereby agrees to indemnify, defend and hold the Tenant and its employees, agents and contractors harmless from any loss, costs and damages (including reasonable attorney's fees and costs) suffered by Tenant, its agents, employees or contractors, as a result of any claim by a third party, its agents, employees or contractors arising from Landlord's ownership or operation of the Property. Landlord shall have the right to designate counsel reasonably acceptable to Tenant, such approval not to be unreasonably withheld, conditioned or delayed, to assume the defense of any such third party claim on behalf of itself and Tenant. Tenant shall not have the right to settle any claim without the consent of Landlord. This indemnity shall survive the expiration of the Term or earlier termination of this Lease.

21. Condemnation.

a) **Termination.** If (i) all of the Premises are covered by a condemnation; or (ii) any of the Premises is covered by a condemnation and the remaining part is insufficient for the reasonable operation therein of Tenant's business; or (iii) subject to the provisions of Subsection 21(b)(i) hereof, any of the Property is covered by a condemnation and, in Landlord's sole opinion, it would be impractical or the condemnation proceeds are insufficient to restore the remainder of the Property; then, in any such event, this Lease shall terminate and all obligations under this Lease shall cease (except for those specifically set forth in the Lease as surviving the expiration of the Term or earlier termination of this Lease) as of the date upon which possession is taken by the condemnor. Upon such termination the Fixed Basic Rent and all Additional Rent herein reserved shall be apportioned and paid in full by Tenant to Landlord to that date and all such rent prepaid for periods beyond that date shall forthwith be repaid by Landlord to Tenant.

b) Partial Condemnation.

(i) If there is a partial condemnation and Landlord decides to terminate pursuant to Subsection 21(a)(iii) hereof, then Tenant may require Landlord, except during the last two (2) years of the Term, to withdraw its notice of termination by: [A] giving Landlord written notice thereof within ten (10) days from transmission of Landlord's notice to Tenant of Landlord's intention to terminate, [B] agreeing to pay the cost of restoration in excess of the

condemnation proceeds reduced by those sums expended by Landlord in collecting the condemnation proceeds, and [C] giving Landlord adequate security for such payment within such ten (10) day period.

(ii) If there is a partial condemnation and this Lease has not been terminated pursuant to subsection (a) hereof, Landlord shall restore the Building and the improvements which are part of the Premises to a condition and size as nearly comparable as reasonably possible to the condition and size thereof immediately prior to the date upon which possession shall have been taken by the condemnor; provided, however, that Landlord shall only be obligated to restore such damage from condemnation to the extent possible with the award damage. If the condemnation proceeds are more than adequate to cover the cost of restoration and the Landlord's expenses in collecting the condemnation proceeds, any excess proceeds shall be retained by Landlord or applied to repayment of any mortgage secured by the Premises.

(iii) If there is a partial condemnation and this Lease has not been terminated by the date upon which the condemnor obtains possession, the obligations of Landlord and Tenant under this Lease shall be unaffected by such condemnation except that there shall be an equitable abatement for the balance of the Term of the Fixed Basic Rent according to the value of the Premises before and after the date upon which the condemnor takes possession. In the event that the parties are unable to agree upon the amount of such abatement, either party may submit the issue to arbitration.

c) **Award.** In the event of a condemnation affecting Tenant, Tenant shall have the right to make a claim against the condemnor for removal expenses and moving expenses, loss of business and any other claims Tenant may have; provided and to the extent, however, that such claims or payments do not reduce the sums otherwise payable by the condemnor to Landlord. Except as aforesaid, Tenant hereby waives all claims against Landlord and against the condemnor, and Tenant hereby assigns to Landlord all claims against the condemnor including, without limitation, all claims for leasehold damages and diminution in value of Tenant's leasehold interest.

22. Quiet Enjoyment. Tenant, upon paying the Fixed Basic Rent, Additional Rent and other charges herein required and observing and keeping all covenants, agreements and conditions of this Lease, shall quietly have and enjoy the Premises during the Term without hindrance or molestation by anyone claiming by or through Landlord, subject, however, to the exceptions, reservations and conditions of this Lease, the Declaration and any mortgage to which this Lease shall be subordinate.

23. Rules and Regulations. The Landlord hereby reserves the right to prescribe, from time to time, at its sole discretion, reasonable rules and regulations (herein called the "Rules and Regulations") attached hereto as Exhibit G governing the use and enjoyment of the Premises and the remainder of the Property. The Rules and Regulations shall not materially interfere with the Tenant's use and enjoyment of the Premises in accordance with the provisions of this Lease for the Permitted Use and shall not increase or modify Tenant's obligations under this Lease. In the event of a conflict between the Lease and such rules and regulations, the Lease shall control. The Tenant shall comply at all times with the Rules and Regulations and shall cause its agents, employees, invitees, visitors, and guests to do so. Landlord shall not be responsible to Tenant for

non-observance or violation of any of the Rules and Regulations by any tenant of the Building but Landlord shall enforce the Rules and Regulations in an uniform and nondiscriminatory manner.

24. Assignment and Sublease.

a) In the event Tenant desires to assign this Lease or sublease all or part of the Premises to any other party, Tenant shall provide notice of the terms and conditions of such assignment or sublease to Landlord prior to the effective date of any such sublease or assignment, and, prior to such effective date, the Landlord shall have the option, exercisable by written notice to Tenant within ten (10) business days of Landlord's receipt of written notice from Tenant, to: (i) recapture (in the case of subletting) that portion of the Premises to be sublet or all of the Premises (in the case of an assignment) ("Recapture Space") so that such prospective subtenant or assignee shall then become the sole Tenant of Landlord hereunder, or (ii) recapture the Recapture Space for Landlord's own use, whereupon Tenant shall be fully released from any and all obligations hereunder with respect to the Recapture Space.

b) In the event that the Landlord elects not to recapture the Lease as hereinabove provided, the Tenant may nevertheless assign this Lease or sublet the whole or any portion of the Premises, subject to the Landlord's prior written consent which shall not be unreasonably withheld or delayed, on the basis of the following terms and conditions:

(i) The Tenant shall provide to the Landlord the following:

- (1) The name and address of the proposed assignee or subtenant;
- (2) All the terms and conditions of the assignment or subletting;
- (3) The nature and character of the business of the proposed assignee

or subtenant;

(4) Banking, financial and other credit information relating to the proposed assignee or subtenant reasonably sufficient to enable Landlord to determine the proposed assignee's or sublessee's financial responsibility; and

(5) In the event of a subleasing of only a portion of the Premises, plans and specifications for tenant's layout, partitioning, and electrical installations for the portion of the Premises to be subleased.

(ii) Tenant shall not be permitted to assign or sublet and it shall not be unreasonable for Landlord to reject an assignment or sublet to the following:

- (1) To a government or quasi-government agency;
- (2) To an entity whose financial or business character is not consistent with the other tenants in the Building;

(3) To an existing tenant of the Building, and such tenant has expansion options in its lease with the Building;

(4) To a Tenant of any other Building owned by an affiliate of Landlord located within three (3) miles of the Building;

(5) For a rental rate less than that which Tenant is paying, or if lower, the rental rate that the Landlord is then quoting, and the Building is less than 85% leased; and

(6) To a tenant or prospect with whom Landlord currently is negotiating for space in the Building and for whom Landlord has prepared a preliminary space plan and has tendered a written proposal.

(iii) The assignee or subtenant shall assume, by written instrument, all of the obligations of the Tenant as provided by this Lease, and a copy of such assumption agreement shall be furnished to the Landlord within ten (10) days of its execution, provided, however, any such subtenants shall only be obligated to assume Tenant's obligations arising under this Lease with respect to the portion of the Premises sublet. Any sublease shall expressly acknowledge that said subtenant's rights against Landlord shall be no greater than those of Tenant. In addition, any request by Tenant for Landlord's consent to an assignment or sublease shall not include any option or right of expansion, renewal, first refusal, or any other right or option with respect to the Premises, any other portion of the Building or for any period of time beyond the original Term, Tenant hereby acknowledging that such rights and options, if any, are personal to Tenant.

(iv) The Tenant and each assignee shall be and remain liable for the observance of all the covenants and provisions of this Lease, including, but not limited to, the payment of Fixed Basic Rent and Additional Rent reserved herein, through the entire Term, as the same may be renewed, extended or otherwise modified.

(v) The Tenant and any assignee or subtenant, as applicable, shall promptly pay to Landlord one-half of the profit, if any, received from such subleasing or assignment after deducting the actual and reasonable marketing and legal expenses incurred and commissions paid (not to exceed market rate commissions for comparable transactions) by Tenant in connection with the assignment or sublease.

(vi) In any event, the acceptance by the Landlord of any rent from the assignee or from any of the subtenants or the failure of the Landlord to insist upon a strict performance of any of the terms, conditions and covenants herein shall not release the Tenant herein, nor any assignee or subtenant, from any and all of the obligations to be performed by it in accordance herewith during and for the entire Term.

(vii) Tenant shall pay to Landlord the sum of One Thousand Dollars (\$1,000.00) to cover its handling charges for each request for consent to any sublet or assignment prior to its consideration of the same. Tenant acknowledges that its sole remedy with respect to any assertion that Landlord's failure to consent to any sublet or assignment is unreasonable shall be the remedy of specific performance and Tenant shall have no other claim or cause of action against Landlord as a result of Landlord's actions in refusing to consent thereto.

c) If Tenant is a corporation other than a corporation whose stock is listed and traded on a nationally recognized stock exchange or on the NASD's Over-the-Counter Bulletin Board or other similar trading platform, the provisions of subsection a hereof shall apply to a transfer (however accomplished, whether in a single transaction or in a series of related or unrelated transactions) of stock (or any other mechanism such as, by way of example, the issuance of additional stock, a stock voting agreement or change in class(es) of stock) which results in a change of control of Tenant as if such transfer of stock (or other mechanism) which results in a change of control of Tenant were an assignment of this Lease, and if Tenant is a partnership or joint venture, said provisions shall apply with respect to a transfer (by one or more transfers) of an interest in the distributions of profits and losses of such partnership or joint venture (or other mechanism, such as, by way of example, the creation of additional general partnership or limited partnership interests) which results in a change of control of such a partnership or joint venture, as if such transfer of an interest in the distributions of profits and losses of such partnership or joint venture which results in a change of control of such partnership or joint venture were an assignment of this Lease; but said provisions shall not apply to transactions with a corporation into or with which Tenant is merged or consolidated or to which all or substantially all of Tenant's assets are transferred or to any corporation which controls or is controlled by Tenant or is under common control with Tenant, provided that in the event of such merger, consolidation or transfer of all or substantially all of Tenant's assets (i) the successor to Tenant has a net worth computed in accordance with generally accepted accounting principles at least equal to the greater of (1) the net worth of Tenant immediately prior to such merger, consolidation or transfer, or (2) the net worth of Tenant herein named on the date of this Lease, and (ii) proof satisfactory to Landlord of such net worth shall have been delivered to Landlord at least ten (10) days prior to the effective date of any such transaction.

d) In the event that any or all of Tenant's interest in the Premises and/or this Lease is transferred by operation of law to any trustee, receiver, or other representative or agent of Tenant, or to Tenant as a debtor in possession, and subsequently any or all of Tenant's interest in the Premises and/or this Lease is offered or to be offered by Tenant or any trustee, receiver, or other representative or agent of Tenant as to its estate or property (such person, firm or entity being hereinafter referred to as the "Grantor", for assignment, conveyance, lease, or other disposition to a person, firm or entity other than Landlord (each such transaction being hereinafter referred to as a "Disposition"), it is agreed that Landlord has and shall have a right of first refusal to purchase, take, or otherwise acquire, the same upon the same terms and conditions as the Grantor thereof shall accept upon such Disposition to such other person, firm, or entity; and as to each such Disposition the Grantor shall give written notice to Landlord in reasonable detail of all of the terms and conditions of such Disposition within twenty (20) days next following its determination to accept the same but prior to accepting the same, and Grantor shall not make the Disposition until and unless Landlord has failed or refused to accept such right of first refusal as to the Disposition, as set forth herein. Landlord shall have sixty (60) days next following its receipt of the written notice as to such Disposition in which to exercise the option to acquire Tenant's interest by such Disposition, and the exercise of the option by Landlord shall be effected by notice to that effect sent to the Grantor; but nothing herein shall require Landlord to accept a particular Disposition or any Disposition, nor does the rejection of any one such offer of first refusal constitute a waiver or release of the obligation of the Grantor to submit other offers hereunder to Landlord. In the event Landlord accept such offer of first refusal, the transaction shall be consummated pursuant to the terms and conditions of the Disposition

described in the notice to Landlord. In the event Landlord rejects such offer of first refusal, Grantor may consummate the Disposition with such other person, firm, or entity; but any decrease in price of more than two percent (2%) of the price sought from Landlord or any change in the terms of payment for such Disposition shall constitute a new transaction requiring a further option of first refusal to be given to Landlord hereunder.

e) Without limiting any of the provisions of this Section 24, if pursuant to the Federal Bankruptcy Code (herein referred to as the "Code"), or any similar law hereafter enacted having the same general purpose, Tenant is permitted to assign this Lease notwithstanding the restrictions contained in this Lease, adequate assurance of future performance by an assignee expressly permitted under such Code shall be deemed to mean the deposit of cash security in an amount equal to the sum of one year's Fixed Basic Rent plus an amount equal to the Additional Rent for the calendar year preceding the year in which such assignment is intended to become effective, which deposit shall be held by Landlord for the balance of the Term, without interest, as security for the full performance of all of Tenant's obligations under this Lease, to be held and applied in the manner specified for any security deposit required hereunder.

f) Except as specifically set forth above, no portion of the Premises or of Tenant's interest in this Lease may be acquired by any other person or entity, whether by assignment, mortgage, sublease, transfer, operation of law or act of the Tenant, nor shall Tenant pledge its interest in this Lease or in any security deposit required hereunder.

g) In the event Tenant desires to assign its lease or sublet any portion of the Premises, Tenant shall cause any and all advertisements or notices of availability to be delivered to Landlord for Landlord's approval prior to releasing or publishing same.

25. Intentionally Omitted.

26. Subordination. This Lease and Tenant's rights under this Lease shall be subject and subordinate at all times in lien and priority to any first mortgage, the Declaration or other primary encumbrance now or hereafter placed upon or affecting the Property or the Premises, and to any second mortgage or encumbrance with the consent of the first mortgagee, and to all renewals, modifications, consolidations and extensions thereof, without the necessity of any further instrument or act on the part of Tenant. Tenant shall execute and deliver upon demand any further instrument or instruments confirming the subordination of this Lease to the lien of any such first mortgage or to the lien of any other mortgage, if requested to do so by Landlord with the consent of the first mortgagee, and any further instrument or instruments of attornment that may be desired by any such mortgagee or Landlord, provided, however, that any holder of such lien or mortgage agrees not to disturb the use and occupancy of the Premises in accordance with the terms of this Lease upon any foreclosure. Notwithstanding the foregoing, any mortgagee may at any time subordinate its mortgage to this Lease, without Tenant's consent, by giving notice in writing to Tenant and thereupon this Lease shall be deemed prior to such mortgage without regard to their respective dates of execution and delivery. In that event such mortgagee shall have the same rights with respect to this Lease as though this Lease had been executed prior to the execution and delivery of the mortgage and had been assigned to such mortgagee.

27. Curing Tenant's Defaults. If Tenant defaults in the performance of any of its obligations under this Lease, Landlord may, after giving any notice and allowing for any grace period required hereunder (except in the case of emergency) without any obligation to do so and in addition to any other rights it may have in law or equity, elect to cure such default on behalf of Tenant. Tenant shall reimburse Landlord upon demand for any sums paid or costs incurred by Landlord in curing such default, including interest thereon from the respective dates of Landlord's making the payments and incurring such costs, which sums and costs together with interest thereon shall be deemed Additional Rent payable within ten (10) days of demand.

28. Surrender.

a) At the expiration of the Term or earlier termination of this Lease, Tenant shall promptly yield up the Premises and all improvements, alterations and additions thereto, and all fixtures and equipment servicing the Premises in a condition which is clean of garbage and debris and broom clean and in the same condition, order and repair in which they are required to be kept throughout the Term, ordinary wear and tear excepted.

b) If Tenant, or any person claiming through Tenant, continues to occupy the Premises after the expiration of the Term or earlier termination of this Lease or any renewal thereof without prior written consent of Landlord, the tenancy under this Lease shall become, at the option of Landlord, expressed in a written notice to Tenant and not otherwise, (i) one from month-to-month, terminable by Landlord on thirty (30) days prior notice, under the same terms and conditions set forth in this Lease; (ii) the Fixed Basic Rent during such continued occupancy shall be one hundred fifty percent (150%) of the amount set forth in Section 6; and (iii) Tenant shall indemnify Landlord for any loss or damage incurred by reason of Tenant's failure to surrender the Premises. Anything to the contrary notwithstanding, any holding over by Tenant without Landlord's prior written consent shall constitute an event of default under this Lease and shall be subject to all the remedies set forth in Subsection 29(b) of this Lease.

29. Defaults-Remedies.

a) **Defaults.** It shall be a default or event of default under this Lease if any one or more of the following events occurs:

(1) Tenant fails to pay in full, when due and without demand, any and all installments of Fixed Basic Rent or Additional Rent or any other charges or payments due and payable under this Lease whether or not herein included as rent within ten (10) days after notice from Landlord of such default provided Landlord shall only be obligated to provide such notice to Tenant two (2) times per any twelve (12) consecutive calendar months.

(2) Tenant violates or fails to perform or otherwise breaches any agreement, term, covenant or condition contained in this Lease provided that Tenant shall have failed to cure such breach within thirty (30) days after written notice thereof from Landlord.

(3) Tenant abandons or vacates the Premises without notice and without having first paid to Landlord in full all Fixed Basic Rent, Additional Rent and other charges that have become due as well as all which will become due thereafter through the end of the Term.

(4) Tenant becomes bankrupt or makes an assignment for the benefit of creditors or if a petition in bankruptcy or for reorganization or for an arrangement with creditors under any federal or state law is filed by or against Tenant, or a bill in equity or other proceeding for the appointment of a receiver or similar official for any of Tenant's assets is commenced, or if any of the real or personal property of Tenant shall be levied upon by any sheriff, marshal or constable; provided, however, that any proceeding brought by anyone other than the parties to this Lease under any bankruptcy, reorganization arrangement, insolvency, readjustment, receivership or similar law shall not constitute an event of default until such proceeding, decree, judgment or order has continued unstayed for more than sixty (60) consecutive days.

(5) Any of the events enumerated in Subsections (a)(i) through (a)(iv) of this Section 29 happen to any guarantor of this Lease.

b) **Remedies.** Upon the occurrence of an event of default under this Lease, Landlord shall have all of the following rights:

(i) Landlord may charge a late payment charge of five (5%) percent of any amount owed to Landlord pursuant to this Lease which is not paid within ten (10) days of the due date which is set forth in the Lease or, if a due date is not specified in this Lease, within thirty (30) days of the mailing of a bill therefor by Landlord. If Landlord incurs a late charge in connection with any payment which Tenant has failed to make within the times required in this Lease, Tenant shall pay Landlord, in addition to such payment due, the full amount of such late charge incurred by Landlord. Nothing in this Lease shall be construed as waiving any rights of Landlord arising out of any default of Tenant, by reason of Landlord's imposing or accepting any such late charge(s) and/or interest; the right to collect such late charge(s) and/or interest is separate and apart from any rights relating to remedies of Landlord after default by Tenant including, without limitation, the rights and remedies of Landlord provided herein.

(ii) Landlord may accelerate the whole or any part of the Fixed Basic Rent and all Additional Rent for the entire unexpired balance of the Term, as well as all other charges, payments, costs and expenses herein agreed to be paid by Tenant, and any Fixed Basic Rent or other charges, payments, costs and expenses so accelerated shall, in addition to any and all installments of rent already due and payable and in arrears and any other charge or payment herein reserved, included or agreed to be treated or collected as rent and any other charge, expense or cost herein agreed to be paid by Tenant which may be due and payable and in arrears, be deemed due and payable as if, by the terms and provisions of this Lease, such accelerated rent and other charges, payments, costs and expenses were on that date payable in advance.

(iii) Landlord may re-enter the Premises and, at the option of Landlord, remove all persons and all or any property therefrom, either by summary dispossession proceedings or by any suitable action or proceeding at law or by force or otherwise, without being liable for prosecution or damages therefor, and Landlord may repossess and enjoy the Premises. Upon recovering possession of the Premises by reason of or based upon or arising out of a default on the part of Tenant, Landlord may, at Landlord's option, either terminate this Lease or make such alterations and repairs as may be necessary in order to relet the Premises and may relet the Premises or any part or parts thereof, either in Landlord's name or otherwise, for a term or terms

which may, at Landlord's option, be less than or exceed the period which would otherwise have constituted the balance of the Term and at such rent or rents and upon such other terms and conditions as in Landlord's sole discretion may seem advisable and to such person or persons as may in Landlord's discretion seem best; upon each such reletting all rents received by Landlord from such reletting shall be applied as follows: first, to the payment of any costs and expenses of such reletting, including all costs of alterations and repairs; second, to the payment of any indebtedness other than Fixed Basic Rent, Additional Rent or other charges due hereunder from Tenant to Landlord; third, to the payment of Fixed Basic Rent, Additional Rent and other charges due and unpaid hereunder; and the residue, if any, shall be held by Landlord and applied in payment of future rent as it may become due and payable hereunder. If rentals received from reletting during any month are less than that to be paid during that month by Tenant, Tenant shall pay any such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. No such re-entry or taking possession of the Premises or the making of alterations or improvements thereto or the reletting thereof shall be construed as an election on the part of Landlord to terminate this Lease unless written notice of termination is given to Tenant. Landlord shall in no event be liable in any way whatsoever for failure to relet the Premises or, in the event that the Premises or any part or parts thereof are relet, for failure to collect the rent thereof under such reletting. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect to terminate this Lease for such previous breach.

(iv) Landlord may terminate this Lease and the Term without any right on the part of Tenant to waive the forfeiture by payment of any sum due or by other performance of any condition, term or covenant broken. Upon such termination, Landlord shall be entitled to recover, in addition to any and all sums and damages for violation of Tenant's obligations hereunder in existence at the time of such termination, damages for Tenant's default in an amount equal to the amount of the Fixed Basic Rent and Additional Rent reserved for the balance of the Term, as well as all other charges, payments, costs and expenses herein agreed to be paid by Tenant all of which amount shall be immediately due and payable from Tenant to Landlord upon demand therefor.

(v) CONFESSION OF JUDGMENT FOR POSSESSION. UPON THE OCCURRENCE OF AN EVENT OF DEFAULT OR UPON THE EXPIRATION OR TERMINATION OF THE TERM OF THIS LEASE, FOR THE PURPOSE OF OBTAINING POSSESSION OF THE PREMISES, TENANT HEREBY AUTHORIZES AND EMPOWERS THE PROTHONOTARY OR ANY ATTORNEY OF ANY COURT OF RECORD IN THE COMMONWEALTH OF PENNSYLVANIA OR ELSEWHERE, AS ATTORNEY FOR TENANT AND ALL PERSONS CLAIMING UNDER OR THROUGH TENANT, TO APPEAR FOR AND CONFESS JUDGMENT AGAINST TENANT FOR POSSESSION OF THE PREMISES, AND AGAINST ALL PERSONS CLAIMING UNDER OR THROUGH TENANT, IN FAVOR OF LANDLORD, FOR RECOVERY BY LANDLORD OF POSSESSION THEREOF, FOR WHICH THIS AGREEMENT OR A COPY HEREOF VERIFIED BY AFFIDAVIT, SHALL BE A SUFFICIENT WARRANT; AND THEREUPON A WRIT OF POSSESSION MAY IMMEDIATELY ISSUE FOR POSSESSION OF THE PREMISES, WITHOUT ANY PRIOR WRIT OR PROCEEDING WHATSOEVER AND WITHOUT ANY STAY OF EXECUTION. IF FOR ANY REASON AFTER SUCH ACTION HAS BEEN COMMENCED THE SAME SHALL BE TERMINATED AND THE POSSESSION OF THE PREMISES REMAINS IN OR IS RESTORED TO TENANT,

LANDLORD SHALL HAVE THE RIGHT UPON THE OCCURRENCE OF ANY SUBSEQUENT EVENT OF DEFAULT TO CONFESS JUDGMENT IN ONE OR MORE FURTHER ACTIONS IN THE MANNER AND FORM SET FORTH ABOVE TO RECOVER POSSESSION OF SAID PREMISES FOR SUCH SUBSEQUENT DEFAULT. TENANT WAIVES ALL ERRORS IN CONNECTION WITH ANY SUCH CONFESSION OF JUDGMENT. NO SUCH TERMINATION OF THIS LEASE, NOR TAKING, NOR RECOVERING POSSESSION OF THE PREMISES SHALL DEPRIVE LANDLORD OF ANY REMEDIES OR ACTION AGAINST TENANT FOR FIXED BASIC RENT, ADDITIONAL RENT OR FOR OTHER SUMS DUE HEREUNDER OR FOR DAMAGES DUE OR TO BECOME DUE FOR THE BREACH OF ANY CONDITION OR COVENANT HEREIN CONTAINED, NOR SHALL THE BRINGING OF ANY SUCH ACTION FOR RENT AND/OR OTHER SUMS DUE HEREUNDER, OR BREACH OF COVENANT OR CONDITION NOR THE RESORT TO ANY OTHER REMEDY HEREIN PROVIDED FOR THE RECOVERY OF RENT AND/OR OTHER SUMS DUE HEREUNDER OR DAMAGES FOR SUCH BREACH BE CONSTRUED AS A WAIVER OF THE RIGHT TO INSIST UPON THE FORFEITURE AND TO OBTAIN POSSESSION IN THE MANNER HEREIN PROVIDED.

c) **Waiver of Jury Trial.** IT IS MUTUALLY AGREED BY AND BETWEEN LANDLORD AND TENANT THAT (A) THEY HEREBY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTER-CLAIM BROUGHT BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER ON ANY MATTER WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OF OCCUPANCY OF THE PREMISES OR CLAIM OF INJURY OR DAMAGE, AND (B) IN ANY ACTION ARISING HEREUNDER, THE LEGAL FEES OF THE PREVAILING PARTY WILL BE PAID BY THE OTHER PARTY TO THE ACTION.

d) **Non-Waiver.** No waiver by Landlord of any breach by Tenant of any of Tenant's obligations, agreements or covenants herein shall be a waiver of any subsequent breach or of any other obligation, agreement or covenant, nor shall any forbearance by Landlord to seek a remedy for any event of default by Tenant be a waiver by Landlord of any rights and remedies with respect to such or any subsequent event of default.

e) **Rights and Remedies Cumulative.** No right or remedy herein conferred upon or reserved to Landlord is intended to be exclusive of any other right or remedy provided herein or by law, but each shall be cumulative and in addition to every other right or remedy given herein or now or hereafter existing at law or in equity or by statute. Landlord shall have no duty to mitigate its damages in the event of Tenant's default under this Lease.

30. Condition of Premises. Tenant represents that the Property and the Premises, the zoning thereof, the street or streets, sidewalks, parking areas, curbs and access ways adjoining them, any surface conditions thereof, and the present uses and non-uses thereof, have been examined by Tenant and Tenant accepts them in the condition or state in which they now are, or any of them now is, without relying on any representation, covenant or warranty, express or implied, in fact or in law, by Landlord (except those expressly set forth in this Lease) and without recourse to Landlord, the nature, condition or usability thereof or the use or uses to which the Premises and

the Property or any part thereof may be put under present zoning ordinances or otherwise, except as to work to be performed by Landlord pursuant to Section 3 and except as to latent defects in such work. Tenant's occupancy of the Premises shall constitute acceptance of the work performed by Landlord pursuant to Section 3.

31. Hazardous Substances.

a) Tenant shall not cause or allow the generation, treatment, storage or disposal of Hazardous Substances on or near the Premises or Property. "Hazardous Substances" shall mean (i) any hazardous substance as that term is now or hereafter defined in the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), 42 U.S.C. 9601 *et seq.*, as amended, (ii) any hazardous waste or hazardous substance as those terms are now or hereafter defined in any local, state or Federal law, regulation or ordinance not inapplicable to the Premises and Property, or (iii) petroleum including crude oil or any fraction thereof. In the event Tenant uses any Hazardous Substances, Tenant shall dispose of such substances in accordance with all applicable Federal, state and local laws, regulations and ordinances.

b) Tenant agrees to indemnify, defend and hold harmless the Landlord, its employees, agents, successors, and assigns, from and against any and all damage, claim, liability, or loss, including reasonable attorneys' and other fees, arising out of or in any way connected to the generation, treatment, storage or disposal of Hazardous Substances by Tenant, its employees, agents, contractors, or invitees, on or near the Premises or Property. Such duty of indemnification shall include, but not be limited to damage, liability, or loss pursuant to all Federal, state and local environmental laws, rules and ordinances, strict liability and common law.

c) Tenant agrees to notify Landlord immediately of any disposal of Hazardous Substances in the Premises or Property, of any discovery of Hazardous Substances in the Premises or the Property, or of any notice by a governmental authority or private party alleging or suggesting that a disposal of Hazardous Substances on or near the Premises or Property may have occurred. Furthermore, Tenant shall provide the Landlord with full and complete access to any documents or information in its possession or control relevant to the question of the generation, treatment, storage, or disposal of Hazardous Substances on or near the Premises or the Property.

d) Landlord represents and warrants that except as set forth in _____ and except for such substances of the types and in the quantities typically found in and/or used in buildings comparable to the Building, to Landlord's knowledge there are no Hazardous Substances in, on or beneath the Property in violation of applicable law.

32. Recording. Neither this Lease nor a memorandum of this Lease shall be recorded in any public records without the written consent of Landlord.

33. Brokers' Commission. Tenant represents and warrants to Landlord that the Brokers (as defined in the Preamble) are the sole brokers with whom Tenant has negotiated in bringing about this Lease and Tenant agrees to indemnify and hold Landlord and its mortgagee(s) harmless from any and all claims of other brokers and expenses in connection therewith arising out of or in

connection with the negotiation of or the entering into this Lease by Landlord and Tenant. In no event shall Landlord's mortgage(s) have any obligation to any broker involved in this transaction. In the event that no broker was involved as aforesaid, then Tenant represents and warrants to the Landlord that no broker brought about this transaction, and Tenant agrees to indemnify and hold Landlord harmless from any and all claims of any broker arising out of or in connection with the negotiations of, or entering into of, this Lease by Tenant and Landlord.

34. Notices. All notices, demands, requests, consents, certificates, and waivers required or permitted hereunder from either party to the other shall be in writing and sent by United States certified mail, return receipt requested, postage prepaid, or by recognized overnight courier, addressed as follows:

If to Tenant:
USA Technologies, Inc.
200 Plant Avenue
Wayne, PA 19087
Atten: Mr. Stephen P. Herbert
President and Chief Operating Officer

with a copy to:

Douglas M Lurio, Esquire
Lurio & Associates, P.C.
One Commerce Square
2005 Market Street
Suite 2340
Philadelphia, PA 19103

If to Landlord:
Deerfield Corporate Center (I) Associates, L.P.
c/o O'Neill Properties Group
700 South Henderson Road
Suite 225
King of Prussia, PA 19406

with a copy to:

Matthew J. Swett, Esquire
Pepper Hamilton LLP
3000 Two Logan Square
Eighteenth and Arch Streets
Philadelphia, PA 19103

Either party may at any time, in the manner set forth for giving notices to the other, specify a different address to which notices to it shall thereafter be sent. All notices shall be effective upon receipt or rejection of receipt by the addressee.

35. Irrevocable Offer: No Option. The submission of this Lease by Landlord to Tenant for examination shall not constitute a reservation of or option for the Premises. This Lease shall become effective only upon execution thereof by an authorized officer of the general partner of the Landlord on behalf of Landlord and by an authorized officer of Tenant.

36. Inability to Perform. Except as provided by Section 3 of this Lease, if Landlord is delayed or prevented from performing any of its obligations under this Lease by reason of strike, labor troubles, or any cause whatsoever beyond Landlord's control, the period of such delay or such prevention shall be deemed added to the time herein provided for the performance of any such obligation by Landlord.

37. Survival. Notwithstanding anything to the contrary contained in this Lease, the expiration of the Term, whether by lapse of time or otherwise, shall not relieve Tenant from its obligations accruing prior to the expiration of the Term.

38. Corporate Tenants. If Tenant is a corporation, the person(s) executing this Lease on behalf of Tenant hereby covenant(s) and warrant(s) that: Tenant is a duly formed corporation qualified to do business in the state in which the Property is located; Tenant will remain qualified to do business in said state throughout the Term and any renewals thereof; and such persons are duly authorized by such corporation to execute and deliver this Lease on behalf of the corporation.

39. Tenant Representations and Warranties. Tenant hereby represents and warrants to Landlord (i) that Tenant's most recent financial statements delivered to Landlord in connection with the execution of this Lease are true in all material respects and no material adverse changes have occurred with respect thereto and (ii) that upon Landlord's request, Tenant will deliver to Landlord current financial statements which shall be prepared in accordance with generally accepted accounting principles consistently applied.

40. Landlord Representations and Warranties. Landlord represents and warrants to Tenant, which representations shall survive the execution of this Lease, that as of the date of execution:

- a) Landlord is the sole owner of a good and marketable indefeasible estate in fee simple in the Building.
- b) The Property is zoned C1 Commercial and permits the Permitted Use.

41. Waiver of Invalidity of Lease. Each party agrees that it will not raise or assert as a defense to any obligation under the Lease or make any claim that the Lease is invalid or unenforceable due to any failure of this document to comply with ministerial requirements including, without limitation, requirements for corporate seals, attestations, witnesses, notarizations or other similar requirements and each party hereby waives the right to assert any such defenses or make any claim of invalidity or unenforceability due to any of the foregoing.

42. Security Deposit. As additional security for the full and prompt performance by Tenant of the terms and covenants of this Lease, Tenant has deposited with Landlord the Security Deposit. The Security Deposit shall consist of 70,000 Jubilee Shares registered in the name of Tenant together with stock powers endorsed by Tenant in favor of Landlord. Upon an event of default by Tenant, Landlord may sell the Jubilee Shares on account of the costs and damages caused by

any such default. On every twelve month anniversary of the Commencement Date, Landlord may revalue the Jubilee Shares (based on the then trading price on the London Stock Exchange or other applicable exchange) and if such value of the Jubilee Shares then held by Landlord is less than U.S. \$100,000, then Tenant shall deliver additional Jubilee Shares to Landlord to be held hereunder so that the aggregate value of the Jubilee Shares then held by Landlord shall equal such amount. In addition to the foregoing, if at any time during the Term the value of the Jubilee Shares drops below Seventy Five Thousand Dollars (\$75,000) then within five (5) business days thereafter, Tenant shall deliver additional Jubilee Shares to Landlord to be held hereunder so the aggregate value thereof then held by Landlord shall equal U.S. \$100,000. Likewise, if at any time during the Term, the value of the Jubilee Shares drops below Ninety Thousand (\$90,000) for ninety (90) consecutive days, then Tenant shall deliver additional Jubilee Shares to Landlord to be held hereunder so that the aggregate value of the Jubilee Shares then held by Landlord shall equal U.S. \$100,000. The Security Deposit shall not constitute rent for any month (unless so applied by Landlord on account of Tenant's default hereunder). Tenant shall, upon demand, restore any portion of the Security Deposit which may be applied by Landlord to cure any default by Tenant hereunder. If at any time, Tenant is unable to deliver to Landlord sufficient Jubilee Shares to satisfy the requirements of this Section 42, then Tenant shall be permitted to deliver cash or irrevocable evergreen letters of credit (which shall be issued by a bank reasonably acceptable to Landlord and be in form and substance satisfactory to Landlord) such that the Jubilee Shares and such other security collectively satisfies such requirements. To the extent that Landlord has not applied the Security Deposit or any portion thereof on account of a default, the Security Deposit, or such remaining portion of the Security Deposit, shall be returned to Tenant, without interest, promptly following the termination of this Lease.

43. Estoppel Certificate. Tenant shall from time to time, within ten (10) days after Landlord's request or that of any mortgagee of Landlord, execute, acknowledge and deliver to Landlord a written instrument in recordable form, substantially in the form attached hereto as Exhibit H (the "Tenant Estoppel Certificate"), certifying (i) that this Lease is in full force and effect and has not been modified, supplemented or amended (or, if there have been modifications, supplements or amendments, that it is in full force and effect as modified, supplemented or amended, and stating such modifications, supplements and amendments); (ii) the dates to which Fixed Basic Rent and Additional Rent and any other charges arising hereunder have been paid; (iii) the amount of any prepaid rents or credits due Tenant, if any; (iv) if applicable, that Tenant has accepted possession and has entered into occupancy of the Premises, and certifying the Commencement Date; (v) whether or not, to the best of the Tenant's knowledge, all conditions under the Lease to be performed by Landlord prior thereto have been satisfied and whether or not Landlord is then in default in the performance of any covenant, agreement or condition contained in this Lease and specifying each, if any, unsatisfied condition and each, if any, default of which Tenant may have knowledge; and (vi) any other fact or condition related to the Lease or the Tenant reasonably requested. Any certification delivered pursuant to the provisions of this Section shall be intended to be relied upon by Landlord and any mortgagee or prospective mortgagee or purchaser of the Property or of any interest therein. Notwithstanding the foregoing, Tenant's failure to furnish the Tenant Estoppel Certificate within said ten (10) day period shall constitute an event of default under this Lease.

44. Landlord's Waiver. Upon Tenant's written request, Landlord agrees to execute landlord's waivers in conjunction with the financing of Tenant's fixtures, machinery, inventory and/or equipment in a commercially reasonable form satisfactory to Landlord, Tenant and Tenant's lender(s). Subject to the provisions of Section 28 of the Lease, Tenant shall have the right at all times to remove and/or replace any fixtures, machinery and/or equipment owned by Tenant.

45. Rights Reserved by Landlord. Landlord waives no rights, except those that may be specifically waived herein, and explicitly retains all other rights including, without limitation, the following rights, each of which Landlord may exercise without notice to Tenant and without liability to Tenant for damage or injury to property, person or business on account of the exercise thereof, and the exercise of any such rights shall not be deemed to constitute an eviction or disturbance of Tenant's use or possession of the Premises and shall not give rise to any claim for set-off or abatement of Rent or any other claim:

a) To change the name or street address of the Building upon sixty (60) days prior notice to Tenant;

b) The exclusive right to use the name of the Building for all purposes, except that Tenant may use the name on its business address and for no other purpose;

c) To install, affix and maintain any and all signs on the exterior and on the interior of the Building or the Property;

d) To decorate or to make repairs, alterations, additions, or improvements, whether structural or otherwise, in and about the Building, or any part thereof, and for such purposes to enter upon the Premises and during the continuance of any of such work, to temporarily close doors, entry ways, public space and corridors in the Building and to interrupt or temporarily suspend services or use of Common Facilities, all without affecting any of Tenant's obligations hereunder, so long as the Premises are reasonably accessible and usable;

e) To furnish door keys for the entry door(s) in the Premises on the Commencement Date and to retain at all times, and to use in appropriate instances, keys to all doors within and into the Premises. Tenant agrees to purchase only from Landlord additional duplicate keys as required, to change no locks, and not to affix locks on doors without the prior written consent of the Landlord. Upon the expiration of the Term or Tenant's right to possession, Tenant shall return all keys to Landlord and shall disclose to Landlord the combination of any safes, cabinets or vaults left in the Premises;

f) To designate and approve all window coverings used in the Building;

g) To regulate delivery of supplies and the usage of the loading docks, receiving areas and freight elevators other than the Loading Ramp;

h) To erect, use and maintain pipes, ducts, wiring and conduits, and appurtenances thereto, in and through the Premises;

i) To grant to any person or to reserve unto itself the exclusive right to conduct any business or render any service in the Building or on the Property. If Landlord elects to make

available to tenants in the Building any services or supplies, or arranges a master contract therefor, Tenant agrees to obtain its requirements, if any, therefor from Landlord or under any such contract, provided that the charges therefor are reasonably consistent with market rates;

j) To alter the layout, design and/or use of the Building in such manner as Landlord, in its sole discretion, deems appropriate, so long as the character of the Building as a first class office building is maintained; and,

k) The exclusive right to use or dispose of the use of the roof of the Building.

46. Miscellaneous. Entire Agreement. This Lease represents the entire agreement between the parties hereto and there are no collateral or oral agreements or understandings between Landlord and Tenant with respect to the Premises or the Property. No rights, easements or licenses are acquired in the Property or any land adjacent to the Property by Tenant by implication or otherwise except as expressly set forth in the provisions of this Lease.

b) **Modification.** This Lease shall not be modified in any manner except by an instrument in writing executed by the parties. In addition, Tenant agrees to make such changes to this Lease as are required by any mortgagee, provided such changes do not substantially affect Tenant's rights and obligation under this Lease.

c) **Interpretation.** The masculine (or neuter) pronoun, singular number, shall include the masculine, feminine and neuter genders and the singular and plural number.

d) **Exhibits.** Each writing or plan referred to herein as being attached as an Exhibit or otherwise designated herein as an Exhibit hereto is hereby made a part of this Lease.

e) **Captions and Headings.** The captions and headings of sections, subsections and the table of contents herein are for convenience only and are not intended to indicate all of the subject matter in the text and they shall not be deemed to limit, construe, affect or alter the meaning of any provisions of this Lease and are not to be used in interpreting this Lease or for any other purpose in the event of any controversy.

f) **Severability.** If any term or provision of this Lease, or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and be enforced to the fullest extent permitted by law.

g) **Joint and Several Liability.** If two or more individuals, corporations, partnerships or other persons (or any combination of two or more thereof) shall sign this Lease as Tenant, the liability of each such individual, corporation, partnership or other persons to pay the Rent and perform all other obligations under this Lease shall be deemed to be joint and several, and all notices, payments and agreements given or made by, with or to any one of such individuals, corporations, partnerships or other persons shall be deemed to have been given or made by, with or to all of them. In like manner, if Tenant shall be a partnership or other legal entity, the members of which are, by virtue of any applicable law or regulation, subject to personal liability, the liability of each such member shall be joint and several.

h) **No Representations by Landlord.** Landlord and Landlord's agents have made no representations, agreements, conditions, warranties, understandings or promises, either oral or written, other than as expressly set forth in this Lease, with respect to this Lease, the Premises, the Building, and/or the Property.

i) **Relationship of Parties.** This Lease shall not create any relationship between the parties other than that of Landlord and Tenant.

j) **Choice of Law.** The terms of this Lease shall be construed under the laws of the Commonwealth of Pennsylvania, and that exclusive jurisdiction and venue shall be in the Court of Common Pleas of the County in which the Property is located without regard to principles of choice or conflict of law; the personam jurisdiction to which each party submits.

k) **Time is of the Essence.** Time is of the essence in all provisions of this Lease.

47. Additional Definitions.

a) "Date of this Lease" or "date of this Lease" shall mean the date of acceptance and execution of this Lease by the Landlord, following execution and delivery thereof to Landlord by Tenant and that date shall be inserted in the space provided in the Preamble.

b) "Landlord" as used in this Lease includes the Landlord named above as well as its successors and assigns, each of whom shall have the same rights, remedies, powers, authorities and privileges as it would have had it originally signed this lease as Landlord. Any such person, whether or not named herein, shall have no liability hereunder after ceasing to hold title to the Property. Neither Landlord nor any principal of Landlord nor any owner of the Building or the Property, whether disclosed or undisclosed, shall have any personal liability with respect to any of the provisions of this Lease, the Premises or the Property, and if Landlord is in breach or default with respect to Landlord's obligations under this Lease or otherwise, Tenant shall look solely to the equity of Landlord in the Premises for the satisfaction of Tenant's remedies.

c) "Tenant" as used in this Lease includes the Tenant named above as well as its heirs, successors and assigns, each of which shall be under the same obligations, liabilities and disabilities and each of which shall have the same rights, privileges and powers as it would have possessed had it originally signed this Lease as Tenant. Each and every person named above as Tenant shall be bound formally and severally by the terms, covenants and agreements contained herein. However, no such rights, privileges or powers shall inure to the benefit of any assignee of Tenant, immediate or remote, unless the assignment to such assignee is permitted or has been approved in writing by Landlord. Any notice required or permitted by the terms of this Lease may be given by or to any one of the persons named above as Tenant, and shall have the same force and effect as if given by or to all of them.

d) "Mortgage" and "Mortgagee" as used in this Lease includes any lien or encumbrance on the Premises, the Building or the Property or on any part of or interest in or appurtenance to any of the foregoing, including without limitation any ground rent or ground lease if Landlord's interest is or becomes a leasehold estate. The word "mortgagee" is used herein to include the holder of any mortgage, including any ground Landlord if Landlord's interest is or becomes a

leasehold estate. Wherever any right is given to a mortgagee, that right may be exercised on behalf of such mortgagee by any representative or servicing agent of such mortgagee.

e) "Person" as used in this Lease includes a natural person, a partnership, a corporation, an association, and any other form of business association or entity.

f) "Rent" or "rent" as used in this Lease shall mean all Fixed Basic Rent and Additional Rent and any other rent or other sums due under this Lease reserved under this Lease.

SECTION 29(b) HEREOF SETS FORTH A WARRANT OR AUTHORITY FOR AS ATTORNEY TO CONFESS JUDGMENT AGAINST TENANT. IN GRANTING THIS WARRANT OF ATTORNEY TO CONFESS JUDGMENT AGAINST TENANT, TENANT HEREBY KNOWINGLY, INTENTIONALLY AND VOLUNTARILY, AND (ON THE ADVICE OF THE SEPARATE COUNSEL OF TENANT, IF TENANT HAS USED COUNSEL IN REGARD TO ENTERING INTO THIS LEASE) UNCONDITIONALLY WAIVES ANY AND ALL RIGHTS TENANT HAS OR MAY HAVE TO PRIOR NOTICE AND AN OPPORTUNITY FOR HEARING UNDER THE CONSTITUTIONS AND LAWS OF THE UNITED STATES AND THE COMMONWEALTH OF PENNSYLVANIA.

48. Tenant's Right of First Offer.

a) Tenant shall have a right of first offer ("Right of Offer") to lease any additional space in the Building contiguous to the Premises containing up to two thousand (2,000) rentable square feet as shown on the attached Exhibit A which becomes available during Term ("Additional Space"). If the Additional Space has not been previously occupied by any tenant, Landlord shall not be required to provide Tenant with any notice of the availability of such space and shall be entitled to lease such space to any third party provided Tenant has not otherwise leased such space from Landlord. In the event such Additional Space becomes available during the Term after having been occupied by another Tenant, Landlord shall provide notice ("Notice of Availability") to Tenant that such Additional Space is available and the terms upon which Landlord is willing to lease such space to Tenant and Tenant shall have ten (10) business days in order to notify Landlord that it elects to exercise its rights hereunder and expand the Premises to include the Additional Space. The terms offered to Tenant shall be at a fair market rental rate. If Tenant disputes such rental rate offered by Landlord, then the Tenant shall be permitted to implement the appraisal process set forth in Subsection 48(b) below. If Tenant elects not to expand into such Additional Space or fails to accept or reject such Additional Space within the ten (10) business day period, then Landlord may proceed to lease such space to any third party. If Landlord elects to lease the Additional Space at a rental rate which is less than ninety percent (90%) of the rate originally quoted to Tenant, Landlord shall first re-offer the Additional Space to Tenant at the new offering rate in accordance with the terms of this Subsection 48(a). If Tenant does not exercise its right to lease the Additional Space and Landlord leases the Additional Space to a third-party tenant, then Tenant's right of first offer with respect to the Additional Space shall be terminated. In any case, if Tenant accepts the Additional Space, the Additional Space shall be added to the Premises by amendment to this Lease. All of the terms and conditions of this Lease will apply to any Additional Space leased by Tenant, except as otherwise provided in the Landlord's Notice of Availability and except as the rental rate may be different as determined in accordance with this Section 48. Landlord will have no liability to

Tenant if any tenant of the Additional Space wrongfully holds over. In the event such tenant wrongfully holds over, Landlord will attempt in good faith to cause such tenant to vacate the Additional Space.

b) Should Tenant dispute Landlord's determination of fair market rental rate, then the Tenant shall be free to, at the Tenant's sole cost and expense, employ the services of an appraiser familiar with office buildings located within the metropolitan Philadelphia, Pennsylvania area comparable to the Building, who shall be a member of MAI and who shall render an appraisal. If the Landlord and the Tenant's appraiser cannot agree on the fair rental value, then Landlord shall appoint an appraiser familiar with corporate office buildings within the metropolitan Philadelphia area. If the Landlord's appraiser and the Tenant's appraiser cannot agree on fair rental value, or in such case, agree on an independent appraiser acceptable to both, either party may request the American Arbitration Association to appoint such independent appraiser who shall be a member of MAI familiar with office buildings in the area of the Building who shall render an appraisal, and in such event the judgment of a majority of the three appraisers shall be final and binding upon the parties. The parties shall share equally in the cost of any such independent appraiser. Pending resolution of the issue of fair rental value, the Tenant shall pay the Landlord as of commencement of the Additional Space term, the Fixed Basic Rent as established by Landlord, subject to retroactive adjustment upon final determination of this issue.

49. Renewal Option. Tenant is hereby granted one (1) option to renew this Lease upon the following terms and conditions:

- a) At the time of the exercise of the option to renew and at the time of the commencement of the term of said renewal, the Tenant shall not be in default beyond any applicable grace or cure period in accordance with the terms and provisions of this Lease.
- b) Notice of the exercise of each option shall be sent to the Landlord in writing at least twelve (12) months before the expiration of the Term of this Lease.
- c) The renewal term shall be for a period of three (3) years, to commence at the expiration of the Term of this Lease and all of the terms and conditions of this Lease, other than the Fixed Basic Rent and all initial construction obligations of Landlord, shall apply during such renewal term.
- d) The annual Fixed Basic Rent to be paid during the renewal terms shall be calculated as follows:

| Year of the Renewal Term | Rentable Square Feet | Rent Per Rentable Square Foot | Annual Fixed Basic Rent | Monthly Fixed Basic Rent |
|--------------------------|----------------------|-------------------------------|-------------------------|--------------------------|
| 1 | 12,864 | \$25.50 | \$328,032.00 | \$27,336.00 |
| 2 | 12,864 | \$26.00 | \$334,464.00 | \$27,872.00 |
| 3 | 12,864 | \$26.50 | \$340,896.00 | \$28,408.00 |

IN WITNESS WHEREOF, and in consideration of the mutual entry into this Lease and for other good and valuable consideration, and intending to be legally bound, each party hereto has caused this agreement to be duly executed under seal.

Landlord:

Date Signed: 4/02/03

DEERFIELD CORPORATE CENTER I
ASSOCIATES, L.P.
By: Deerfield Corporate Center I Associates GP,
LLC, its general partner

By: *Richard Heany*
Name: RICHARD HEANY
Title: President

Tenant:

Date Signed: 3/28/03

USA TECHNOLOGIES, INC.

Attest: *M. Taylor Young*
Name: M. Taylor Young

By: *George J. ...*
Name: George J. ...
Title: CEO

CODE OF BUSINESS CONDUCT AND ETHICS

INTRODUCTION

A most valued asset of USA Technologies, Inc. ("USA" or the "Company") is its reputation for integrity and ethical standards. To preserve USA's reputation and to reaffirm its existing policy for integrity to its employees, officers and directors and to persons who deal with USA, the Board of Directors of USA has adopted this policy.

SCOPE

This Code of Business Conduct and Ethics ("Code") applies in the United States and in every other country in which USA and its subsidiaries do business. Compliance with this Code is required of every employee, officer and director. If you have any questions regarding this Code or its application to you in any situation, you should contact your supervisor or USA's President.

CODE

This Code outlines the broad principles of legal and ethical business conduct embraced by USA. It is not a complete list of legal or ethical issues you might face in the course of business, and, therefore, you must apply this Code using common sense and good judgment. Employees, officers and directors should report promptly to their supervisor or USA's President any possible violations of this Code. No form of reprisal will be taken against you for reporting in good faith actual or suspected violations.

COMPLIANCE WITH LAWS, RULES AND REGULATIONS.

All employees, officers and directors shall comply with all laws, rules and regulations applicable to the Company wherever it does business. You are expected to use good judgment and common sense in seeking to comply with all applicable laws, rules and regulations and to ask for advice when you are uncertain about them.

COMPETITIVE BUSINESS.

Each employee, officer and director must act in the best interests of USA. You must refrain from engaging in any activity that interferes with your exercise of independent judgment or materially impairs the performance of your responsibilities, including engaging in any business venture or owning an interest in any enterprise that places you in direct competition with USA. You should not, as an employee, officer or director, take action or have an interest that prevents you from performing your Company responsibilities honestly and objectively. You may invest in stock (or other securities) in publicly or privately owned companies, whether or not they are competitors of, or do business with, USA so long as that holding is not so great as to interfere with your exercise of independent judgment or materially impair the performance of your responsibilities.

It is your responsibility to disclose any transaction or relationship that reasonably could be expected to interfere with your exercise of independent judgment or materially impair the performance of your responsibilities to USA's President or, if you are an executive officer or director, to the Board of Directors, which shall be responsible for reviewing such transaction or relationship and determining whether any action needs to be taken.

INSIDER TRADING.

Employees, officers and directors who have material non-public information about USA or other companies, including USA's suppliers and customers, as a result of their relationship with the Company are prohibited by law and Company policy from trading in securities of the Company or such other companies, as well as from communicating such information to others who might trade on the basis of that information.

POLITICAL CONTRIBUTIONS.

Except as permitted by applicable law, no political contributions of the funds of USA are to be made, directly or indirectly, to candidates for political office or to political parties or committees in the United States or any foreign country. Any permissible exceptions to this general prohibition will require the prior consent of the President of USA.

GIFTS AND GRATUITIES.

The use of USA funds or assets for gifts, gratuities or other favors to employees or government officials is prohibited, except to the extent such gifts are in compliance with applicable law, nominal in amount and not given in consideration or expectation of any action by the recipient.

Employees, officers and directors must not accept, or permit any member of their immediate family to accept, any gifts, gratuities or other favors from any customer, supplier or other person doing or seeking to do business with USA, other than items of nominal value. Any gifts that are not of nominal value should be returned immediately and reported to your supervisor.

Bribes and kickbacks are criminal acts, strictly prohibited by law. You must not offer, give, solicit or receive any form of bribe or kickback anywhere in the world.

ACCURACY OF BOOKS AND RECORDS.

All transactions must be properly and accurately recorded in the appropriate books and records of USA, and all receipts and disbursements, and any asset or liability resulting from the transactions, must be reflected in any financial statements based upon such books and records. All receipts and disbursements must be properly supported and documented. No payment on behalf of USA shall be approved or made with the intention or understanding that any part of such payment is to be used for any purpose other than that described by the documents supporting the payments. No undisclosed or unrecorded fund, bank account or asset of USA may be established at any time. No employee, officer or director shall make a false or misleading statement to, nor shall any employee, officer or director conceal information from, outside or internal auditors or legal counsel of USA.

PUBLIC REPORTING OF INFORMATION.

It is the policy of the Company to provide full, fair, accurate, timely and understandable disclosure in reports and documents filed with, or submitted to, the Securities and Exchange Commission ("SEC") and in other public communications. Every employee of the Company has the responsibility to assist the Company in meeting these legal and regulatory requirements. If an employee reasonably believes that the Company or any of its employees or others, acting on behalf of the Company, have violated any securities laws or regulations, including matters relating to accounting and auditing, the employee should immediately report any such potential violation to the Company's President.

CONFIDENTIALITY.

Employees, officers and directors must maintain the confidentiality of confidential information entrusted to them by USA or other companies, including USA's suppliers and customers, except when disclosure is authorized by a supervisor or legally mandated. Unauthorized disclosure of any confidential information is prohibited. Additionally, you should take appropriate precautions to ensure that confidential or sensitive business information, whether it is proprietary to USA or another company, is not communicated within the Company except to those who have a need to know such information to perform their responsibilities.

Employees, officers and directors (other than USA's authorized spokespersons) must not discuss internal USA matters with, or disseminate internal USA information to, anyone outside the Company, except as required in the performance of their Company duties and after an appropriate confidentiality agreement is in place. This prohibition applies particularly to inquiries concerning the Company from the media, stock market professionals (such as securities analysts, institutional investors, investment advisers, brokers and dealers) and security holders. All responses to inquiries on behalf of the Company must be made only by the Company's authorized spokespersons. If you receive any inquiries of this nature, you must decline to comment and refer the inquirer to your supervisor or one of the Company's authorized spokespersons.

You also must abide by any lawful obligations that you have to your former employer. These obligations may include restrictions on the use and disclosure of confidential information, restrictions on the solicitation of former colleagues to work at USA and non-competition obligations.

HONEST AND ETHICAL CONDUCT AND FAIR DEALING.

Employees, officers and directors should endeavor to deal honestly, ethically and fairly with the Company's suppliers, customers, competitors and employees. Statements regarding the Company's products and services must not be untrue, misleading, deceptive or fraudulent. You must not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair-dealing practice.

PROTECTION AND PROPER USE OF CORPORATE ASSETS.

Employees, officers and directors should seek to protect the Company's assets. Theft, carelessness and waste have a direct impact on the Company's financial performance. Employees, officers and directors must use the Company's assets and services solely for legitimate business purposes of the Company and not for any personal benefit or the personal benefit of anyone else.

REPORTING AND COMPLIANCE

RESPONSIBILITIES.

Every employee, officer and director has the responsibility to ask questions, seek guidance, report suspected violations and express concerns regarding compliance with this Code. Any employee, officer or director who knows or believes that any other employee or representative of the Company has engaged or is engaging in Company-related conduct that violates applicable law or this Code should report such information to his or her supervisor or to the President. You may report such conduct openly or anonymously without fear of retaliation. The Company will not discipline, discharge, demote, suspend, threaten, harass or in any other manner discriminate or retaliate against any employee who reports such conduct, unless it is determined that the report was made with knowledge that it was false. This Code should not be construed to prohibit you from testifying, participating or otherwise assisting in any state or federal administrative, judicial or legislative proceeding or investigation.

Questions regarding this policy should be referred to the President of USA. Candor is expected from all employees, officers and directors at all times and prompt communication of any problems or breaches seen or foreseen in the areas described above should be made to the President of USA.

VICE PRESIDENT'S COMPLIANCE CERTIFICATIONS.

It shall be the responsibility of each USA Vice President annually (a) to review this policy or cause it to be reviewed with his or her subordinates, offering each subordinate an opportunity to report privately to such Vice President any problems or breaches seen or foreseen in the areas described above, and (b) to certify to the Audit Committee of the Board of Directors of USA his or her knowledge with respect to such problems or breaches and that such review has occurred.

DISCIPLINARY ACTIONS.

The Company shall determine whether violations of this Code have occurred and, if so, shall determine the disciplinary measures to be taken against any employee or officer who has violated this Code. In the event that the alleged violation involves an executive officer or a director, the Chief Executive Officer and the Board of Directors, respectively, shall determine whether a violation of this Code has occurred and, if so, shall determine the disciplinary measures to be taken against such executive officer or director.

Failure to comply with the standards outlined in this Code will result in disciplinary action including, but not limited to, reprimands, warnings, probation or suspension without pay, demotions, reductions in salary, discharge and restitution. Certain violations of this Code may require the Company to refer the matter to the appropriate governmental or regulatory authorities for investigation or prosecution. Moreover, any supervisor who directs or approves of any conduct in violation of this Code, or who has knowledge of such conduct and does not immediately report it, also will be subject to disciplinary action, up to and including discharge.

The Company reserves the right to amend, alter or terminate this Code at any time for any reason. The most current version of this Code can be obtained from USA's President.

This document is not an employment contract between the Company and any of its employees, officers or directors.

WAIVERS OF THIS CODE

Any executive officer or director who seeks an exception to any of these policies should contact USA's President. Any waiver of this Code for executive officers or directors or any change of this Code that applies to executive officers or directors may be made only by the Board of Directors of the Company and will be disclosed as required by law or stock market regulation.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-117073) of USA Technologies, Inc. and in the related Prospectus of our report dated September 10, 2004, with respect to the consolidated financial statements of USA Technologies, Inc. included in this Annual Report (Form 10-KSB) for the year ended June 30, 2004.

/s/ Ernst & Young LLP

September 28, 2004
Philadelphia, PA

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

I, George R. Jensen, Jr., Chief Executive Officer of the registrant, certify that:

1. I have reviewed this annual report on Form 10-KSB of USA Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
 - c. Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation, of internal control over financial reporting to the auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: September 28, 2004

/s/ George R. Jensen, Jr.

George R. Jensen, Jr.,
Chief Executive Officer

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

I, Mary West Young, Chief Financial Officer of the registrant, certify that:

1. I have reviewed this annual report on Form 10-KSB of USA Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
 - c. Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation, of internal control over financial reporting to the auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: September 28, 2004

/s/ Mary West Young

Mary West Young,
Chief Financial Officer

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the accompanying Annual Report of USA Technologies, Inc., (the "Company") on Form 10-KSB for the period ended June 30, 2004 (the "Report"), I, George R. Jensen, Jr., Chief Executive Officer of the Company, hereby certify that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ George R. Jensen, Jr.

George R. Jensen, Jr.
Chief Executive Officer

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the accompanying Annual Report of USA Technologies, Inc., (the "Company") on Form 10-KSB for the period ended June 30, 2004 (the "Report"), I, Mary West Young, Chief Financial Officer of the Company, hereby certify that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mary West Young

Mary West Young
Chief Financial Officer