**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 1O-Q**

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

**For the quarterly period ended September 30, 2011**

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE EXCHANGE ACT OF 1934**

For the transition period from ____________________ to _____________________

Commission file number 001-33365

**USA Technologies, Inc.**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Pennsylvania | 23-2679963 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 100 Deerfield Lane, Suite 140, Malvern, Pennsylvania | 19355 |
| (Address of principal executive offices) | (Zip Code) |

(610) 989-0340
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer o
Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).Yes o No x

As of October 25, 2011, there were 32,467,842 shares of Common Stock, no par value, outstanding.

USA TECHNOLOGIES, INC.

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**USA Technologies, Inc.**
**Consolidated Balance Sheets**

| | | September 30, 2011 | | June 30, 2011 |
|---|---|---|---|---|
| | | (Unaudited) | | |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ | 11,099,937 | $ | 12,991,511 |
| Accounts receivable, less allowance for uncollectible accounts of $53,000 and $113,000, respectively | | 1,469,274 | | 1,634,719 |
| Finance receivables | | 377,232 | | 285,786 |
| Inventory | | 2,509,534 | | 2,670,332 |
| Prepaid expenses and other current assets | | 906,641 | | 846,033 |
| Total current assets | | 16,362,618 | | 18,428,381 |
| | | | | |
| Finance receivables, less current portion | $ | 147,946 | $ | 195,601 |
| Property and equipment, net | | 8,623,561 | | 7,395,775 |
| Intangibles, net | | 1,935,753 | | 2,194,353 |
| Goodwill | | 7,663,208 | | 7,663,208 |
| Other assets | | 108,112 | | 126,687 |
| Total assets | $ | 34,841,198 | $ | 36,004,005 |
| | | | | |
| Liabilities and shareholders' equity | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ | 4,981,809 | $ | 5,638,361 |
| Accrued expenses | | 1,615,431 | | 1,088,090 |
| Current obligations under long-term debt | | 330,669 | | 155,428 |
| Total current liabilities | | 6,927,909 | | 6,881,879 |
| | | | | |
| Long-term liabilities: | | | | |
| Long-term debt, less current portion | | 398,880 | | 97,633 |
| Accrued expenses, less current portion | | 221,725 | | 166,709 |
| Warrant liabilities, non-current | | 995,644 | | 2,732,253 |
| Total long-term liabilities | | 1,616,249 | | 2,996,595 |
| Total liabilities | | 8,544,158 | | 9,878,474 |
| | | | | |
| Commitments and contingencies | | | | |
| | | | | |
| Shareholders' equity: | | | | |
| Preferred stock, no par value: | | | | |
| Authorized shares- 1,800,000 Series A convertible preferred-Issued and outstanding shares- 442,968 (liquidation preference of $15,029,326 and $14,697,100, respectively) | | 3,138,056 | | 3,138,056 |
| Common stock, no par value: Authorized shares- 640,000,000 Issued and outstanding shares- 32,378,356 and 32,281,140, respectively | | 220,023,061 | | 219,772,598 |
| Accumulated deficit | | (196,864,077) | | (196,785,123) |
| | | | | |
| Total shareholders' equity | | 26,297,040 | | 26,125,531 |
| | | | | |
| Total liabilities and shareholders' equity | $ | 34,841,198 | $ | 36,004,005 |

*See accompanying notes.*

**USA Technologies, Inc.**
**Consolidated Statements of Operations**
**(Unaudited)**

| | Three months ended September 30, 2011 | Three months ended September 30, 2010 |
|---|---|---|
| Revenues: | | |
| License and transaction fees | $ 5,419,663 | $ 3,344,472 |
| Equipment sales | 1,286,085 | 1,096,193 |
| Total revenues | 6,705,748 | 4,440,665 |
| | | |
| Cost of services | 3,761,577 | 2,436,200 |
| Cost of equipment | 895,135 | 648,898 |
| Gross profit | 2,049,036 | 1,355,567 |
| | | |
| Operating expenses: | | |
| Selling, general and administrative | 3,468,070 | 2,913,298 |
| Depreciation and amortization | 403,232 | 341,541 |
| Total operating expenses | 3,871,302 | 3,254,839 |
| Operating loss | (1,822,266) | (1,899,272) |
| | | |
| Other income (expense): | | |
| Interest income | 17,867 | 25,310 |
| Interest expense | (11,164) | (12,652) |
| Change in fair value | 1,736,609 | - |
| Total other income, net | 1,743,312 | 12,658 |
| Net loss | (78,954) | (1,886,614) |
| Cumulative preferred dividends | (332,226) | (333,351) |
| Loss applicable to common shares | $ (411,180) | $ (2,219,965) |
| Loss per common share (basic and diluted) | $ (0.01) | $ (0.09) |
| Weighted average number of common shares outstanding (basic and diluted) | 32,288,638 | 25,842,604 |

*See accompanying notes.*

**USA Technologies, Inc.**
**Consolidated Statement of Shareholders' Equity**
**(Unaudited)**

| | Series A Convertible Preferred Stock | | Common Stock | | Accumulated | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Deficit | Total |
| Balance, June 30, 2011 | 442,968 | $ 3,138,056 | 32,281,140 | $ 219,772,598 | $ (196,785,123) | $ 26,125,531 |
| Issuance of shares for exercise of warrants at $2.20 per share | | | 4,550 | 10,010 | | 10,010 |
| Issuance and vesting of shares granted to employees and directors under the 2010 Stock Incentive Plan | | | 92,666 | 240,453 | | 240,453 |
| Net loss | | | - | - | (78,954) | (78,954) |
| Balance, September 30, 2011 | 442,968 | $ 3,138,056 | 32,378,356 | $ 220,023,061 | $ (196,864,077) | $ 26,297,040 |

*See accompanying notes.*

**USA Technologies, Inc.**
**Consolidated Statements of Cash Flows**
**(Unaudited)**

| | Three months ended September 30, 2011 | Three months ended September 30, 2010 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net loss | $ (78,954) | $ (1,886,614) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Charges incurred in connection with the issuance and vesting of common stock for employee and director compensation | 240,453 | 8,103 |
| Charges incurred in connection with the Long-term Equity Incentive Program | - | 61,303 |
| Change in fair value of warrants | (1,736,609) | - |
| Loss on disposal of property and equipment | - | 10,380 |
| Depreciation, $418,493 and $183,365, respectively, of which is allocated to cost of services | 563,125 | 266,306 |
| Amortization | 258,600 | 258,600 |
| Bad debt expense (recovery) | (22,056) | 8,316 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 187,501 | 143,576 |
| Finance receivables | (43,791) | 111,824 |
| Inventory | (1,073,810) | (961,778) |
| Prepaid expenses and other assets | 48,339 | 132,920 |
| Accounts payable | (656,552) | (19,818) |
| Accrued expenses | 582,357 | (67,895) |
| Net cash used in operating activities | (1,731,397) | (1,934,777) |
| | | |
| INVESTING ACTIVITIES: | | |
| Purchase of property and equipment, net | (60,348) | (89,999) |
| Net cash used in investing activities | (60,348) | (89,999) |
| | | |
| FINANCING ACTIVITIES: | | |
| Net proceeds from the issuance of common stock | 10,010 | 8,085 |
| Repayment of long-term debt | (109,839) | (120,252) |
| Net cash used in financing activities | (99,829) | (112,167) |
| | | |
| Net decrease in cash and cash equivalents | (1,891,574) | (2,136,943) |
| Cash and cash equivalents at beginning of period | 12,991,511 | 7,604,324 |
| Cash and cash equivalents at end of period | $ 11,099,937 | $ 5,467,381 |
| | | |
| *Supplemental disclosures of cash flow information*: | | |
| Cash paid for interest | $ 11,708 | $ 13,472 |
| Equipment and software acquired under capital lease | $ 495,955 | $ - |
| Prepaid insurance financed with long-term debt | $ 90,372 | $ 94,311 |
| Reclass of inventory to fixed assets for rental units | $ 1,234,608 | $ 493,587 |
| Disposal of property & equipment | $ 20,407 | $ 140,931 |

*See accompanying notes.*

## 1. Accounting Policies

*Business*

USA Technologies, Inc. (the "Company", "We" or "Our") was incorporated in the Commonwealth of Pennsylvania in January 1992. The Company is a leading supplier of cashless, remote management, reporting and energy management solutions serving the unattended Point of Sale ("POS") market. Our networked devices and associated services enable the owners and operators of everyday, stand-alone, distributed assets, such as vending machines, kiosks, personal computers, photocopiers, 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 cashless payment options. The Company also manufactures and sells energy management products which reduce the electrical power consumption of various equipment such as refrigerated vending machines and glass front coolers, thus reducing the electrical energy costs associated with operating this equipment. The Company's customers are primarily located in the United States.

*Interim Financial Information*

The accompanying unaudited consolidated financial statements of USA Technologies, Inc. have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and therefore should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended June 30, 2011. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting of normal recurring adjustments, have been included. Operating results for the three month period ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending June 30, 2012. The balance sheet at June 30, 2011 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

The Company has incurred losses from its inception through June 30, 2011 and losses have continued through September 30, 2011 and are expected to continue during fiscal year 2012. The Company's ability to meet its future obligations is dependent upon the success of its products and services in the marketplace and available capital resources. Until the Company's products and services can generate sufficient operating revenues, the Company will be required to use its cash and cash equivalents on hand, as well as raise capital to meet its cash flow requirements including the potential issuance of Common Stock.

*Consolidation*

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

*Use of Estimates*

The preparation of the consolidated 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 and Cash Equivalents*

Cash and cash equivalents represent all highly liquid investments with original maturities of three months or less. Cash equivalents are comprised of money market funds. The Company maintains its cash in bank deposit accounts, which may exceed federally insured limits at times.

Included in cash and cash equivalents at September 30, 2011 and June 30, 2011 was approximately $0 and $410,000, respectively, of cash received by the Company for transaction processing services which is payable to our customers. Included in accounts receivable are amounts for transactions processed with our card processers for which cash has not been received by the Company and included in accounts payable are amounts for transactions processed with our card processers and due to our customers, which are recorded net of fees due to the Company. Generally, contractual terms require us to remit amounts owed to our customers on a weekly basis.

1. Accounting Policies (Continued)

*Inventory*

Inventory consists of finished goods and packaging materials. The Company's inventory is stated at the lower of cost (average cost basis) or market.

*Fair Value of Financial Instruments*

In September 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, "Fair Value Measurements and Disclosures ("Topic 820"): Improving Disclosures about Fair Value Measurements." ASU 2009-06 amends certain disclosure requirements of Subtopic 820-10. This ASU provides additional disclosures for transfers in and out of Levels 1 and 2 and for activity in Level 3. This ASU also clarifies certain other existing disclosure requirements including level of desegregation and disclosures around inputs and valuation techniques.

The Company's financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy. The three levels are as follows:

Level 1- Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2- Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3- Inputs are unobservable and reflect the Company's assumptions that market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available.

The Company's financial instruments, principally cash equivalents, accounts receivable, finance receivables, prepaid expenses and other assets, accounts payable and accrued expenses, are carried at cost which approximates fair value due to the short-term maturity of these instruments. The fair value of the Company's obligations under its long-term debt and credit agreements approximates their carrying value as such instruments are at market rates currently available to the Company.

*Income Taxes*

No provision for income taxes has been made for the three months ended September 30, 2011 and 2010 given the Company's losses in 2011 and 2010 and available net operating loss carryforwards. A benefit has not been recorded as the realization of the net operating losses is not assured and the timing in which the Company can utilize its net operating loss carryforwards in any year or in total may be limited by provisions of the Internal Revenue Code regarding changes in ownership of corporations.

*Equity Awards*

In accordance with the FASB Accounting Standards Codification ("ASC") Topic 718 the cost of employee and director services received in exchange for an award of equity instruments is based on the grant-date fair value of the award and allocated over the vesting period of the award.

The Company recorded stock compensation expense of $240,453 and $8,103 related to common stock grants and vesting of shares previously granted to employees and directors, excluding the Long-Term Equity Incentive Program ("LTIP" or the "LTIP Program") during the three months ended September 30, 2011 and 2010, respectively. The Company recorded stock compensation expense of $0 and $61,303 related to the vesting of shares under the fiscal year 2010 LTIP Program during the three months ended September 30, 2011 and 2010, respectively. There were no common stock options granted, vested or recorded as expense during the three months ended September 30, 2011 and 2010.

1. Accounting Policies (Continued)

On September 15, 2011, at the recommendation of the Compensation Committee, the board of directors adopted the Fiscal Year 2012 Performance Share Plan (the "2012 Plan") covering the Company's executive officers. On that date there were not sufficient shares available under the existing stock plans that had been approved by the shareholders of the Company. Pursuant to the 2012 Plan the Company may be required to pay the executives an amount of cash equal to the value of shares earned but not available to be issued to the executives. As such and in accordance with ASC Topic 718, "Stock Compensation", this award is accounted for as a liability of the Company. As of September 30, 2011 and for the three months then ended the Company recorded a liability as if the award will be settled in cash and recorded expense of $47,582 as its estimate of the award earned by Company's executive officers.

*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 potential common shares. No exercise of stock options, stock purchase warrants, or the conversion of preferred stock or cumulative preferred dividends was assumed during the periods presented because the assumed exercise of these securities would be anti-dilutive.

*Recent Accounting Pronouncement*

In December 2010, the Financial Accounting Standards Board issued ASU 2010-28 Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts Consensus reached in EITF Issue No. 10-A. This will be effective for the Company beginning with the fiscal year ending June 30, 2013.

In April 2011, the Financial Accounting Standards Board issued ASU Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP. This will be effective for the Company beginning with the quarter ending March 31, 2012.

In September 2011, the Financial Accounting Standards Board issued ASU 2011-08 Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. This will be effective for the Company beginning with the fiscal year ending June 30, 2013.

The Company does not believe that these or any other recently issued, but not yet effective accounting standards will have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

2. Finance Receivables

Finance receivables include sales-type leases to accommodate extended payment terms for equipment purchases to certain customers. Finance receivables are carried at their contractual amount and charged off against the allowance for credit losses when management determines that recovery is unlikely and the Company ceases collection efforts. Monthly payments for the receivables are collected by deduction from our customers' vending and equipment transaction funds. The Company recognizes a portion of the lease payments as interest income in the accompanying consolidated financial statements based on the effective interest rate method.

Finance receivables consist of the following:

| | September 30, 2011 | June 30, 2011 |
|---|---|---|
| | (unaudited) | |
| Total finance receivables | $ 525,178 | $ 481,387 |
| Less current portion | 377,232 | 285,786 |
| Non-current portion of finance receivables | $ 147,946 | $ 195,601 |

As of September 30, 2011 and June 30, 2011, there was no allowance for credit losses of finance receivables. As the Company collects monthly payments of the receivables from the customers' transaction funds the risk of loss was determined to be remote.

2. Finance Receivables (continued)

Credit Quality Indicators
As of September 30, 2011

Credit risk profile based on payment activity:

| | Leases |
|---|---|
| Performing | $ 525,178 |
| Nonperforming | - |
| Total | $ 525,178 |

Age Analysis of Past Due Finance Receivables
As of September 30, 2011

| | 31 – 60 Days Past Due | 61 – 90 Days Past Due | Greater 90 Days Past Due | Total Past Due | Current | Total Finance Receivables |
|---|---|---|---|---|---|---|
| Finance | - | - | - | - | $ 525,178 | $ 525,178 |
| Total | $ - | $ - | $ - | $ - | $ 525,178 | $ 525,178 |

3. Accrued Expenses

Accrued expenses consist of the following:

| | September 30, 2011 | June 30, 2011 |
|---|---|---|
| | (unaudited) | |
| Accrued compensation and related sales commissions | $ 347,564 | $ 269,335 |
| Accrued professional fees | 336,437 | 197,964 |
| Accrued taxes and filing fees | 574,793 | 302,147 |
| Advanced customer billings | 167,688 | 100,398 |
| Accrued other | 410,674 | 384,955 |
| | $ 1,837,156 | $ 1,254,799 |

4. Long-Term Debt

Long-term debt consists of the following:

| | September 30, 2011 | June 30, 2011 |
|---|---|---|
| | (unaudited) | |
| Capital lease obligations | $ 509,424 | $ 84,043 |
| Loan agreement | 220,125 | 169,018 |
| | 729,549 | 253,061 |
| Less current portion | 330,669 | 155,428 |
| | $ 398,880 | $ 97,633 |

During July 2011, the Company financed a portion of the premiums for various insurance policies totaling $90,372 due in nine equal monthly installment payments of $10,283 at an interest rate of 5.57%.

During August 2011, the Company entered into a capital lease for network equipment totaling approximately $496,000, due in thirty-six monthly payments of $14,145 through August 2014 at an interest rate of 6.8%.

5. Fair Value of Financial Instruments

In accordance with the fair value hierarchy described in Note 1, the following table shows the fair value of the Company's financial instruments that are required to be measured at fair value as of September 30, 2011 and June 30, 2011:

| September 30, 2011 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash equivalents | $ 99,475 | $ - | $ - | $ 99,475 |
| Common stock warrant liability, warrants exercisable at $2.6058 from September 18, 2011 through September 18, 2016 | $ - | $ - | $ 964,208 | $ 964,208 |
| Common stock warrant liability, warrants exercisable at $5.90 through September 14, 2013 | $ - | $ - | $ 31,436 | $ 31,436 |

| June 30, 2011 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash equivalents | $ 83,267 | $ - | $ - | $ 83,267 |
| Common stock warrant liability, warrants exercisable at $2.6058 from September 18, 2011 through September 18, 2016 | $ - | $ - | $ 2,638,629 | $ 2,638,629 |
| Common stock warrant liability, warrants exercisable at $5.90 through September 14, 2013 | $ - | $ - | $ 93,624 | $ 93,624 |

As of September 30, 2011 and June 30, 2011, the fair values of the Company's Level 1 financial instruments were $99,475 and $83,267, respectively. These financial instruments consist of money market accounts classified as cash equivalents on the Company's consolidated balance sheets.

As of September 30, 2011 and June 30, 2011, the Company held no Level 2 financial instruments.

As of September 30, 2011 and June 30, 2011, the fair values of the Company's Level 3 financial instruments totaled $995,644 and $2,732,253, respectively. The Level 3 financial instruments consist of common stock warrants issued by the Company in March 2011 and March 2007, which include features requiring liability treatment of the warrants. The fair value of warrants issued in March 2011 to purchase 3.9 million shares of the Company's common stock is based on valuations performed by an independent third party valuation firm. The fair value was determined using proprietary valuation models using the quality of the underlying securities of the warrants, restrictions on the warrants and security underlying the warrants, time restrictions and precedent sale transactions completed in the secondary market or in other private transactions. The fair value of warrants issued in March 2007 to purchase 903,955 shares of the Company's common stock was estimated by the Company using the Black-Scholes model and applying an estimated fair value adjustment primarily related to the illiquidity of the warrants. Prior to March 31, 2011, the fair value of these warrants was determined to be de minimus and was not included on the Company's consolidated balance sheets.

There were no transfers of assets or liabilities between level 1, level 2, or level 3 during the three months ended September 30, 2011 and 2010.

| | Three months ended September 30, | |
|---|---|---|
| | 2011 | 2010 |
| | (unaudited) | (unaudited) |
| Balance, beginning of period | $ (2,732,253) | $ - |
| Unrealized gains included in other income related to the change in the fair value of warrant liabilities | 1,736,609 | - |
| Purchases, sales, issuances, settlements, or transfers | - | - |
| Balance, end of period | $ (995,644) | $ - |

6. Common Stock and Preferred Stock

On September 27, 2011, the Company and Mr. Jensen, the Company's Chief Executive Officer at that date, entered into an amended and restated employment agreement, as well as the Jensen Stock Agreement described below. The new employment agreement continued substantially all of the previous terms and conditions of his employment agreement other than the provisions related to the Jensen Shares. The new agreement did not continue the provisions of his prior agreement which obligated the Company to pay any excise taxes attributable to any excess parachute payments which would be payable to Mr. Jensen upon the occurrence of a USA Transaction as well as the Company's obligation to pay tax gross up payments attributable to such excise taxes. The new agreement also stated that the premiums for Mr. Jensen's supplemental long term disability policy being paid by the Company would now be included in his wages and be taxable to him. In exchange for modifying the excise tax and related gross up provisions, the Company issued an aggregate of 150,000 shares of common stock to Mr. Jensen under its stock incentive plans which vest as follows: 50,000 on the date the agreement was signed (September 27, 2011) by Mr. Jensen and the Company; 50,000 on the first anniversary of the date of signing (September 27, 2012); and 50,000 on the second anniversary of the date of signing (September 27, 2013). Pursuant to the Separation Agreement and Release (the "Separation Agreement") entered into by the Company and Mr. Jensen (see Subsequent Events, Note 9, for a more detailed discussion on the Separation Agreement), the 50,000 shares of the Company's common stock vesting on September 27, 2012 became vested to Mr. Jensen as of October 14, 2011, and the 50,000 shares vesting on September 27, 2013 were forfeited. The Company recorded no expense or reduction of expense for the change in vesting of these shares for the three months ended September 30, 2011.

On September 27, 2011, the Company and Mr. Jensen also entered into a new agreement (the "Jensen Stock Agreement") which contained the provisions relating to the issuance by the Company to Mr. Jensen of the Jensen Shares which had previously been set forth in his employment agreement. The provisions of Mr. Jensen's prior employment agreement which required the Company to pay any excise taxes attributable to the excess parachute payments attributable to the Jensen Shares as well as the related obligation to make tax gross up payments have been retained in the Jensen Stock Agreement and continue to apply to the Jensen Shares.

On September 27, 2011, the Company and Mr. Herbert entered into a second amendment to his employment agreement. The amendment eliminated the provisions of his prior agreement which obligated the Company to pay any excise taxes attributable to any excess parachute payments which would be received by Mr. Herbert upon the occurrence of a USA Transaction as well as the Company's related obligation to make tax gross up payments. The new agreement also stated that the premiums for Mr. Herbert's supplemental long term disability policy being paid by the Company would now be included in his wages and be taxable to him. In exchange for eliminating the excise tax and related gross up provisions, the Company issued an aggregate of 100,000 shares of common stock to Mr. Herbert under its stock incentive plans which vest as follows: 33,333 on the date the agreement was signed by Mr. Herbert and the Company (September 27, 2011); 33,333 on the first anniversary of the date of signing (September 27, 2012); and 33,334 on the second anniversary of the date of signing (September 27, 2013).

On September 27, 2011, the Company and Mr. DeMedio entered into a fifth amendment to his employment agreement pursuant to which Mr. DeMedio was granted an aggregate of 25,000 shares of common stock as a bonus for his performance during the last six months of the 2011 fiscal year which vest as follows: 8,333 on the date of signing the amendment (September 27, 2011); 8,333 on the first anniversary of such signing date (September 27, 2012); and 8,334 on the second anniversary of such signing date (September 27, 2013). Mr. DeMedio also agreed that the premiums for his supplemental long term disability policy being paid by the Company would now be included in his wages and be taxable to him.

On September 15, 2011, at the recommendation of the Compensation Committee, the board of directors adopted the Fiscal Year 2012 Performance Share Plan (the "2012 Plan") covering the Company's executive officers. Under the 2012 Plan, each executive officer will be awarded common stock in the event the Company achieves target goals during the fiscal year ending June 30, 2012 relating to the total number of connections, total revenues, operating expenses, and operating earnings. Operating earnings is defined as earnings before interest and taxes (after bonus accruals and stock awards) and before non-operating gains or losses. The number of eligible shares to be awarded to the executives is based upon the following weightings: 30% by the total number of connections; 30% by total revenues; 10% by operating expenses; and 30% by operating earnings. No awards would be made under the 2012 Plan if either (i) none of the minimum, threshold performance target goals have been achieved, or (ii) if operating earnings for the 2012 fiscal year are not equal or better than those during the 2011 fiscal year.

6. Common Stock and Preferred Stock (continued)

If all of the target performance goals are achieved, the executive officers would be awarded the following number of shares: Mr. Herbert – 120,000 shares; and Mr. DeMedio – 50,000 shares. If all of the minimum, threshold performance target goals are achieved, the executive officers would be awarded 20% of the number of shares which would have been awarded to them if all of the target performance goals had been achieved. If all of the maximum, distinguished performance target goals are achieved, the executive officers would be awarded 150% of the number of shares which would have been awarded to them if all of the target performance goals had been achieved. If the actual results for the fiscal year are less than the target goals (but greater than the minimum, threshold performance target goals), each executive would be awarded a lesser *pro rata* portion of the number of eligible shares.

In the event of the occurrence of a USA Transaction during the fiscal year, and provided that the executive is an employee of USA on the date of such USA Transaction, the Plan shall be terminated and each executive shall be awarded shares as of the date of such USA Transaction as if all of the target performance goals had been met. In the event that the executive's employment with the Company is terminated by the Company for cause during the fiscal year, or if the executive resigns his employment for any reason other than for good reason during the fiscal year, then the executive shall not be entitled to earn any award under the 2012 Plan. In the event that the executive's employment with the Company shall be terminated by the Company during the fiscal year for any reason whatsoever other than for cause, or if the executive's employment is terminated by the executive for good reason during the fiscal year, then the executive shall be awarded shares as if all of the target performance goals had been meet. If the executive's employment is terminated during the fiscal year as a result of death or disability, the executive shall nevertheless be eligible to earn shares under the 2012 Plan as if he had remained employed with the Company through the end of the fiscal year.

Notwithstanding the above description of the 2012 Plan, the executives would receive shares from the Company pursuant to the 2012 Plan only if and to the extent that shares would be available to be issued to the executives under the existing 2011 stock incentive plan or another stock plan that has been approved by the shareholders of the Company in accordance with NASDAQ Listing Rule 5635(c). If there would not be a sufficient number of shares available to be issued to the executives, the Company would pay to the executives an amount of cash equal to the value of those shares not available to be issued to the executives. In such event, the executives would be required to utilize the cash payment, net of any withholding, payroll or other taxes attributable to the cash payment, to purchase shares of common stock of the Company on the open market.

As of September 15, 2011, there were not sufficient shares available under the existing 2011 stock incentive plan or another stock plan that had been approved by the shareholders of the Company; consequently, the Company may be required the executives an amount of cash equal to the value of shares earned but not available to be issued to the executives. Therefore, in accordance with ASC Topic 718, "Stock Compensation", this award is accounted for as a liability of the Company. As of September 30, 2011 and for the three months then ended the Company recorded a liability as if the award will be settled in cash and recorded expense of $47,582 as its estimate of the award earned by Messrs. Herbert and DeMedio.

Pursuant to the Separation Agreement entered into by the Company and Mr. Jensen (see Subsequent Events, Note 9, for a more detailed discussion on the Separation Agreement), Mr. Jensen is not entitled to earn shares under the 2012 Plan, and therefore no award was estimated for Mr. Jensen for the three months ended September 30, 2011.

7. Common Stock Warrants

As of September 30, 2011, there were 15,562,649 Common Stock warrants outstanding, all of which were currently exercisable at exercise prices ranging from $1.13 to $7.70 per share. In accordance with ASC Topic 815, *Derivatives and Hedging*, 4,803,955 of the warrants are subject to liability accounting. Therefore, the fair value of the warrants is included on the Company's consolidated balance sheets and changes in the fair value are included in the Company's consolidated statements of operations (see Note 5).

8. Commitments

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. Legal fees will be expensed as occurred.

## 9. Subsequent Events

*Resignation and Separation Agreement*

On October 5, 2011, the Company suspended George R. Jensen, Jr., as the Chairman and Chief Executive Officer of the Company pending investigation by the Audit Committee of the Board of Directors of postings by Mr. Jensen concerning the Company made on an Internet message board. During such suspension, Mr. Jensen continued to receive the compensation and benefits provided for under his employment agreement.

On October 14, 2011, the Company and Mr. Jensen entered into a Separation Agreement and Release. Pursuant to the Separation Agreement, Mr. Jensen resigned as Chairman, Chief Executive Officer and as a Director of the Company, effective immediately. The Separation Agreement states that the Company shall provide Mr. Jensen with (i) a lump sum payment of $365,000 which is equal to one year's base salary subject to applicable payroll and tax withholding; (ii) a lump sum payment of $17,875 which is equal to one year's car allowance subject to applicable payroll and tax withholding; (iii) a lump sum payment of $28,077 which is attributable to Mr. Jensen's unused vacation subject to applicable payroll and tax withholding; (iv) group medical and dental insurance coverage for one year at no cost to Mr. Jensen; (v) the 41,667 shares of the Company's common stock which were awarded to Mr. Jensen in connection with the signing of an amendment to his employment agreement in April 2011 and which would not have otherwise vested until April 2012; and (vi) the 50,000 shares of the Company's common stock which were awarded to Mr. Jensen in connection with the signing of his amended and restated employment agreement in September 2011 and which would not have otherwise vested until September 2012. The Separation Agreement provides that the confidentiality and restrictive covenant provisions of Mr. Jensen's September 2011 amended and restated employment agreement shall remain in full force and effect in accordance with their terms. Mr. Jensen has released the Company and certain other parties from and against any and all claims he may have, subject to any rights to indemnification or coverage which he may have under any existing insurance policies of the Company, the bylaws of the Company, or the existing indemnification agreement between him and the Company. Mr. Jensen has also agreed to certain standstill provisions for a three year period.

Pursuant to the Separation Agreement, 41,667 shares of common stock that would have vested in April 2013 in connection with the signing of an amendment to Mr. Jensen's employment agreement in April 2011 and 50,000 shares of common stock that would have vested in September 2013 in connection with the signing of his amended and restated employment agreement in September 2011 were forfeited.

On October 5, 2011, the Company appointed Stephen P. Herbert, age 48, as interim Chief Executive Officer and Chairman. Since August 1999, Mr. Herbert has been the President and Chief Operating Officer of the Company, and will retain these roles. Mr. Herbert has been an officer and Director of the Company since 1996.

*Visa Agreement*

On October 12, 2011, the Company and Visa U.S.A. Inc. ("Visa") entered into a one-year agreement (the "Visa Agreement") pursuant to which Visa has agreed to make available to the Company reduced interchange fees for debit card transactions. Pursuant to regulations promulgated under the Durbin Amendment to the Dodd Frank Wall Street Reform And Consumer Protection Act of 2010, effective October 1, 2011, the interchange fees for small ticket category transactions paid for through debit cards issued by regulated banks would increase from 1.55% plus $0.04 per transaction to 0.05% plus $0.22 per transaction. The interchange reimbursement fees made available to the Company through the Visa Agreement will allow the Company to continue to accept Visa's debit products over the one-year term without adversely impacting the Company's historical gross profit from license and transaction fee revenues. During its fiscal year 2011, approximately 82% of the transactions handled by the Company's network consisted of small ticket debit card transactions, of which approximately 75% were attributable to Visa debit cards.

During the term of the Visa Agreement, the Company does not anticipate accepting any debit cards with interchange fees that are higher than the rates provided under the Visa Agreement.

The Visa Agreement completely supersedes the prior Acceptance and Promotional Agreement (the "Prior Agreement") entered into between the Company and Visa dated as of August 16, 2010. The Visa Agreement also provides that any funds received by the Company from Visa pursuant to the Prior Agreement are not subject to clawback by Visa, and all of the rights and obligations of Visa and the Company under the Prior Agreement have been terminated.

9. Subsequent Events (Continued)

*Commitments*

In October 2011, the Company amended the lease of its operations site in Malvern, Pennsylvania, to extend the lease term from December 31, 2011 to December 31, 2012 with the option to extend the lease thereafter for an additional 24 month period. The amendment includes monthly rental payments of approximately $15,100 to $16,200. Beginning in January 2012 the straight-lined rent expense for this office will be approximately $15,600 per month for the duration of the amended lease period.

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

**Forward Looking Statements**

This Form 10-Q 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, "estimate," "could," "should," "would," "likely," "may," "will," "plan," "intend," "believes," "expects," "anticipates," "projected," 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:

- general economic, market or business conditions;

- the ability of the Company to generate sufficient sales to generate operating profits, or to sell products at a profit;

- the ability of the Company to raise funds in the future through sales of securities;

- the ability of the Company to obtain commercial acceptance of its products and services;

- the ability of the Company to compete with its competitors to obtain market share;

- whether the Company's customers purchase or rent ePort devices or our other products in the future at levels currently anticipated by our Company, including our Jump Start Program;

- whether the Company's customers continue to operate or commence operating ePorts received under the Jump Start Program or otherwise at levels currently anticipated by the Company;

- whether the Company's customers continue to utilize the Company's transaction processing and related services, as our customer agreements are generally cancelable by the customer on thirty to sixty days' notice;

- whether the recent significant increase in the interchange fees to be charged by Visa and MasterCard for small ticket debit card transactions would adversely affect our business, including our revenues, gross profits, and anticipated future connections to our network;

- whether not accepting any debit cards with interchange fees that are higher than the rates provided under the Visa Agreement would adversely affect our business, including our revenues, gross profits, and anticipated future connections to our network;

- the ability of the Company to obtain sufficient funds through operations or otherwise to repay its debt obligations, or to fund development and marketing of its products;

- the ability of the Company to satisfy its trade obligations included in accounts payable and accrued liabilities;

- the ability of the Company to predict or estimate its future quarterly or annual revenues and expenses given the developing and unpredictable market for its products and the lack of established revenues;

- the ability of the Company to retain key customers from whom a significant portion of its revenues is derived;

- whether the actions of Mr. Jensen which resulted in his resignation as Chairman and Chief Executive Officer of the Company would have a material adverse effect on the business prospects of the Company or the future financial results or financial condition of the Company;

- the ability of a key customer to reduce or delay purchasing products from the Company; and

- as a result of the slowdown in the economy and/or the tightening of the capital and credit markets, our customers may modify, delay or cancel plans to purchase our products or services, and suppliers may increase their prices, reduce their output or change their terms of sale.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Actual results or business conditions may differ materially from those projected or suggested in forward-looking statements as a result of various factors including, but not limited to, those described above. We cannot assure you that we have identified all the factors that create uncertainties. Moreover, new risks emerge from time to time and it is not possible for our management to predict all risks, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements. Readers should not place undue reliance on forward-looking statements.

Any forward-looking statement made by us in this Form 10-Q speaks only as of the date of this Form 10-Q. Unless required by law, we undertake no obligation to publicly revise any forward-looking statement to reflect circumstances or events after the date of this Form 10-Q or to reflect the occurrence of unanticipated events.

**RESULTS OF OPERATIONS**

*Three months ended September 30, 2011 compared to the three months ended September 30, 2010*

Revenues for the quarter ended September 30, 2011 were $6,705,748, consisting of $5,419,663 of license and transactions fees and $1,286,085 of equipment sales, compared to $4,440,665, consisting of $3,344,472 of license and transaction fees and $1,096,193 of equipment sales for the quarter ended September 30, 2010. The increase in total revenue of $2,265,083, or 51%, was primarily due to an increase in license and transaction fees of $2,075,191, or 62%, from the prior period, and an increase in equipment sales of $189,892 or 17%, from the prior period. The increase in license and transaction fees was primarily due to the increase in the number of ePort® units connected to our USALive® network, and the associated fees generated by these connected units. License and transaction fee revenues consist of monthly service fees and transaction processing fees. We anticipate that our license and transaction fee revenues would continue to increase if the number of connections to our network would continue to increase.

As of September 30, 2011, the Company had approximately 129,000 connections to the USALive® network (including approximately 15,000 third party devices, which are other devices purchased by customers) as compared to approximately 88,000 connections to the USALive® network (including approximately 9,000 third party devices, which are other devices purchased by customers) as of September 30, 2010. During the quarter ended September 30, 2011, the Company added approximately 10,000 connections to our network as compared to approximately 6,000 connections during the quarter ended September 30, 2010. The Jump Start Program units represented approximately 60% and 45% of connections added during the September 2011 and September 2010 fiscal quarters, respectively.

The Company counts its ePort connections upon shipment of an active terminal to a customer under contract, at which time activation on its network is performed by the Company, and the terminal is capable of conducting business via the Company’s network and related services. An ePort connection does not necessarily mean that the unit is actually installed by the customer on a vending machine, or that the unit has begun processing transactions, or that the Company has begun receiving monthly service fees in connection with the unit. At the time of shipment of the ePort, the customer becomes obligated to pay the one-time activation fee, and is obligated to pay monthly service fees in accordance with the terms of the customer’s contract with the Company.

During the quarter ended September 30, 2011, the Company processed approximately 25 million transactions totaling approximately $42 million compared to approximately 14 million transactions totaling approximately $24 million during the quarter ended September 30, 2010, an increase of approximately 79% in the number of transactions and approximately 75% in dollars processed. Pursuant to its agreements with customers, the Company earns transaction processing fees equal to a percentage of the dollar volume processed by the Company, which are included as licensing and transaction processing revenues in its Consolidated Statements of Operations. The Company’s transaction processing volume is not indicative of the gross profit from license and transaction fees which is based upon the monthly service fees and transaction processing fees paid to us by our customers.

In addition, our customer base increased with approximately 300 new ePort customers added to its USALive® network during the quarter ended September 30, 2011 bringing the total number of such customers to approximately 2,225 as of September 30, 2011. The Company added approximately 150 new ePort customers in the quarter ended September 30, 2010. By comparison, the Company had approximately 1,200 ePort customers as of September 30, 2010, representing an 85% increase during the past twelve months. We count a customer as a new ePort customer upon shipment of the first ePort unit to the customer. When a reseller sells our ePort, we count a customer as a new ePort customer upon the signing of the applicable services agreement with the customer.

The $189,892 increase in equipment sales was a result of an increase of approximately $160,000 related to ePort® products and fees and an increase of approximately $65,000 in Energy Miser products, offset by a decrease of approximately $35,000 in sales of the Business Center and eSuds® product lines combined. The increase in ePort® hardware sale revenue is due mainly to a larger number of units shipped in the quarter ended September 30, 2011 versus the quarter ended September 30, 2010 being part of the Jump Start Program, for which the Company records a one-time activation fee, but does not record any corresponding costs of an equipment (hardware) sale. Pursuant to the Jump Start Program, the Company is entitled to receive a one-time activation fee upon shipment of the device, a monthly service fee in accordance with the terms of the customer’s contract with the Company, and transactional processing fees due in connection with the cashless activity generated by the device.

Cost of sales consisted of network and transaction services related costs of $3,761,577 and $2,436,200 and equipment costs of $895,135 and $648,898 and for the quarter ended September 30, 2011 and 2010, respectively. The increase in total cost of sales of $1,571,614 over the prior fiscal quarter was due to an increase in network and transaction services of $1,325,377 and an increase in equipment costs of $246,237. The increase in network and transaction services costs was directly related to increases in units connected to the network and increases in processing volume. The increase in equipment costs related to the increased number of ePort® and Energy Miser products sold as well an approximate additional $74,000 of freight-in costs associated with our newly offered Verizon enabled ePort® in the quarter ended September 30, 2011 versus the same quarter a year ago.

Gross profit ("GP") for the quarter ended September 30, 2011 was $2,049,036 compared to gross profit of $1,355,567 for the previous fiscal quarter, an increase of $693,469, of which $749,814 is attributable to license and transaction fees, offset by a decrease of $56,345 of equipment sales GP. The increase in GP dollars from license and transaction fees was generated by additional devices connected to our network. The decrease in GP from equipment sales is predominately due to $74,000 of additional costs incurred during the quarter ended September 30, 2011 for freight-in of the newly offered Verizon enabled ePort® as well as the prior fiscal quarter's Visa support funding of approximately $33,000. Overall percentage based GP was consistent between fiscal quarters, while license and transaction fees GP increased from 27% to 31% due mainly to lowering the average network communication costs per connection from improved service management and equipment sales GP decreased from 41% to 30% due mainly to additional freight-in costs during the quarter as discussed above and the prior fiscal quarter having Visa support funding for deployment costs that was not available in the current quarter.

Selling, general and administrative expenses ("SG&A") of $3,468,070 for the quarter ended September 30, 2011, increased by $554,772 or 19%, from the prior fiscal quarter, due to increases of approximately $278,000 in employee compensation and benefit expenses, $160,000 in additional sales taxes, and net increases of approximately $78,000 in consulting and professional services and other net increases of approximately $39,000.

Employee compensation and benefit expenses increased by approximately $278,000 primarily due to a $229,000 increase in salaries and bonuses as well as a $149,000 net increase in non-cash charges incurred with the vesting and issuances of common stock for employee services offset by a decrease of $99,000 in severance and benefit expenses.

Consulting and professional service fees increased by approximately $78,000 due to $89,000 of additional expenses of legal and investigative services surrounding Mr. Jensen's separation from the Company, as well as an increase of $58,000 for other legal services and an increase of $49,000 for accounting services, offset by an approximate $105,000 decrease in information technology consulting services. The Company has incurred legal and investigative expenses relating to Mr. Jensen's separation from the Company subsequent to September 30, 2011, and these additional expenses would be reflected in future reporting periods.

The quarter ended September 30, 2011 resulted in a net loss of $78,954 compared to a net loss of $1,886,614 for the quarter ended September 30, 2010. The net loss for the quarter ended September 30, 2011 reflected other income in the amount of $1,736,609 attributable to the reduction during the quarter of the fair value of the Company's warrant based liabilities, all as described in note 5 to the Consolidated Financial Statements. For the quarter ended September 30, 2011, the loss per common share was $0.01 as compared to a loss per common share of $0.09 for the prior fiscal quarter.

Effective October 1, 2011, Visa and MasterCard significantly raised their interchange fees for small ticket category transactions paid for through debit cards issued by regulated banks as defined under the "Durbin Amendment" to the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010. The interchange rates would increased from 1.55% of a transaction plus 4 cents, to 0.05% of a transaction plus 22 cents, which represents an increase of approximately 247% based on a transaction of $1.67, which was the average transaction experienced by the Company during fiscal year 2011.

On October 12, 2011, the Company and Visa entered into a one-year agreement (the "Visa Agreement") pursuant to which Visa has agreed to make available to the Company reduced interchange fees for debit card transactions. The interchange reimbursement fees made available to the Company will allow the Company to continue to accept Visa's debit products over the one-year term without adversely impacting the Company's historical gross profit from license and transaction fee revenues (see Subsequent Events, Note 9 to the Consolidated Financial Statements for more information). During its fiscal year 2011, approximately 82% of the transactions handled by the Company's network consisted of small ticket debit card transactions, of which approximately 75% were attributable to Visa debit cards.

During the term of the Visa Agreement, the Company does not anticipate accepting any debit cards with interchange fees that are higher than the rates provided under the Visa Agreement. The Company will continue to accept Visa- branded debit and pre-paid cards in addition to all major credit cards, including Visa, MasterCard, Discover and American Express at its current processing rates. In addition, as the result of the Visa Agreement, the Company recently announced it will not increase in its processing rates to its customers.

During the quarter ended September 30, 2011, approximately 18% of transactions handled by the Company consisted of debit cards with interchange fees higher than the rates provided under the Visa Agreement had the Visa Agreement been in place at the beginning of the quarter. It is possible that this transaction volume, once acceptance of these cards cease, could be replaced by either credit card or Visa debit card use. However, if the amount of cashless volume handled by the Company decreases as a result of not accepting any debit card with interchange fees higher than the rates provided under the Visa Agreement, our license and transaction revenue would decline by an amount equal to the transaction processing rate the Company charges our customer per cashless transaction. We cannot estimate at this time, if or to what extent any such reduction in transaction volume would be replaced by credit cards or Visa debit cards, or if the rate of anticipated future connections and/or the number of our current connections to our network would be materially adversely affected.

**Liquidity and Capital Resources**

For the quarter ended September 30, 2011, net cash of $1,731,397 was used by operating activities, primarily due to cash used related to changes in the Company's operating assets and liabilities of $955,956 and the net loss of $78,954 offset by net non-cash charge reductions totaling $696,487, consisting of the reduction in the fair value of common stock warrants of $1,736,609 offset by vesting and issuance of common stock for employee and director compensation, and the depreciation and amortization of assets.

The $955,956 cash used related to changes in the Company's operating assets and liabilities was primarily the result of $1,234,608 of inventory used in the Jump Start Program during the quarter and a net decrease in accounts payable and accrued expenses, offset by cash provided by changes in receivables and prepaid assets.

During the quarter ended September 30, 2011, the Company used $60,348 in investing activities related to property and equipment, used net cash $99,829 in financing activities mainly due to repayment of long-term debt offset by proceeds from stock issuances of $10,010 from the exercise of warrants.

The Company has incurred losses since inception. Our accumulated deficit through September 30, 2011 is composed of cumulative losses amounting to approximately $194,027,000, preferred dividends converted to common stock of approximately $2,688,000 and charges incurred for the open-market purchases of preferred stock of approximately $149,000. The Company has historically raised capital through equity offerings in order to fund operations.

During the remainder of the 2012 fiscal year, the Company anticipates incurring capital expenditures of approximately $6,300,000 in connection with ePort units expected to be used in the Jump Start Program and additional capital expenditures of approximately $650,000 for property and equipment.

As a result of the connections added during the most recent fiscal quarters, recurring revenue from license and transaction fees increased from approximately $3,340,000 for the three months ended September 30, 2010 to approximately $5,420,000 for the three months ended September 30, 2011, an increase of 62%. In addition, total GP has increased from approximately $1,360,000 for the three months ended September 30, 2010 to approximately $2,050,000 for the three months ended September 30, 2011, an increase of 51%.

Our average monthly SG&A expenses during the quarter ended September 30, 2011 were approximately $1,156,000. This included non-cash charges during the quarter of approximately $218,000 consisting of stock-based compensation and bad debt recoveries, as well as cash expenses of approximately $160,000 related to non-recurring sales tax expenses. Excluding these charges, our average monthly cash-based SG&A expenses during the quarter ended September 30, 2011 were approximately $1,030,000.

Assuming our average monthly cash-based SG&A expenses incurred in the September 30, 2011 quarter would continue through the remainder of the fiscal year, the Company believes its existing cash and cash equivalents as of September 30, 2011, would provide sufficient funds to meet its cash requirements, including capital for the Jump Start Program, capital expenditures, repayment of long-term debt, funding the separation payments to Mr. Jensen from the Company pursuant to the Separation and Release Agreement and funding the legal and investigative expenses incurred or anticipated to be incurred by the Company in connection with Mr. Jensen's separation of employment with the Company, through at least July 1, 2012.

For the quarter ended September 30, 2011, the Company had an adjusted EBITDA loss of $760,088. Reconciliation of net loss to Adjusted EBITDA loss for the quarters ended September 30, 2011 and 2010:

| | Three months ended September 30, | |
|---|---|---|
| | 2011 | 2010 |
| Net loss | $ (78,954) | $ (1,886,614) |
| Less interest income | (17,867) | (25,310) |
| Plus interest expense | 11,164 | 12,652 |
| Plus income tax expense | - | - |
| Plus depreciation expense | 563,125 | 266,306 |
| Plus amortization expense | 258,600 | 258,600 |
| Less change in fair value of warrant liabilities | (1,736,609) | - |
| Plus stock-based compensation | 240,453 | 8,103 |
| Adjusted EBITDA loss | $ (760,088) | $ (1,366,263) |

As used herein, Adjusted EBITDA represents net income (loss) before interest income, interest expense, income taxes, depreciation, amortization, and change in fair value of warrant liabilities and stock-based compensation expense. We have excluded the non-operating item, change in fair value of warrant liabilities, because it represents a non-cash charge that is not related to the Company's operations. We have excluded the non-cash expenses, stock-based compensation, as it does not reflect the cash-based operations of the Company. Adjusted EBITDA is a non-GAAP financial measure which is not required by or defined under GAAP (Generally Accepted Accounting Principles). The presentation of this financial measure is not intended to be considered in isolation or as a substitute for the financial measures prepared and presented in accordance with GAAP, including the net income or net loss of the Company or net cash used in operating activities. Management recognizes that non-GAAP financial measures have limitations in that they do not reflect all of the items associated with the Company's net income or net loss as determined in accordance with GAAP, and are not a substitute for or a measure of the Company's profitability or net earnings. Adjusted EBITDA is presented because we believe it is useful to investors as a measure of comparative operating performance and liquidity, and because it is less susceptible to variances in actual performance resulting from depreciation and amortization and non-cash charges for changes in fair value of warrant liabilities and stock-based compensation expense.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company's exposure to market risks for interest rate changes is not significant. Interest rates on its long-term debt are generally fixed and its investment in cash equivalents is not significant. Market risks related to fluctuations of foreign currencies are not significant and the Company has no derivative instruments.

**Item 4. 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 September 30, 2011. Based on this evaluation, they conclude that the disclosure controls and procedures were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal controls.

There have been no changes during the quarter ended September 30, 2011 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 II - Other Information**

**Item 3. Defaults Upon Senior Securities**

There were no defaults on any senior securities. However, on August 1, 2011, an additional $332,226 of dividends was accrued on our cumulative Series A Convertible Preferred Stock. The total accrued and unpaid dividends on our Series A Convertible Preferred Stock as of September 30, 2011 are $10,599,646. The dividend accrual dates for our Preferred Stock are February 1 and August 1. The annual cumulative dividend on our Preferred Stock is $0.75 per share.

**Item 6. Exhibits**

| | |
|---|---|
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of the Chief Financial Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | |
|---|---|
| | USA TECHNOLOGIES, INC. |
| Date: November 8, 2011 | /s/ Stephen P. Herbert |
| | Stephen P. Herbert<br>Interim Chief Executive Officer<br>and President |
| Date: November 8, 2011 | /s/ David M. DeMedio |
| | David M. DeMedio<br>Chief Financial Officer |

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

I, Stephen P. Herbert certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 issuer as of, and for, the periods presented in this report;

4. The registrant'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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant'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

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter (the issuer's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The 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 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 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 issuer's internal control over financial reporting.

Date: November 8, 2011

/s/ Stephen P. Herbert
Stephen P. Herbert
Interim Chief Executive Officer
and President

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**
**(18 U.S.C. SECTION 1350)**

I, David M. DeMedio, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 issuer as of, and for, the periods presented in this report;

4. The registrant’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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant’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

d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the issuer’s most recent fiscal quarter (the issuer’s fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the issuer’s internal control over financial reporting; and

5. The 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 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 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 issuer’s internal control over financial reporting.

Date: November 8, 2011

/s/ David M. DeMedio
David M. DeMedio
Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**
**(18 U.S.C. SECTION 1350)**

In connection with the accompanying Quarterly Report of USA Technologies, Inc., (the “Company”) on Form 10-Q for the period ended September 30, 2011 (the “Report”), I, Stephen P. Herbert., Interim 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/ Stephen P. Herbert

Stephen P. Herbert
Interim Chief Executive Officer
and President

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**
**(18 U.S.C. SECTION 1350)**

In connection with the accompanying Quarterly Report of USA Technologies, Inc., (the “Company”) on Form 10-Q for the period ended September 30, 2011 (the “Report”), I, David M. DeMedio, 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/ David M. DeMedio
David M. DeMedio
Chief Financial
Officer