

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

FORM 10-Q

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

For the quarterly period ended September 30, 2019

OR

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 300, Malvern, Pennsylvania **19355**
(Address of principal executive offices) (Zip Code)

(610) 989-0340

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name Of Each Exchange On Which Registered
Common Stock, no par value	USAT	The NASDAQ Stock Market LLC
Series A Convertible Preferred Stock	USATP	The NASDAQ Stock Market LLC

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 No

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 No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 1, 2019 there were 63,825,304 outstanding shares of Common Stock, no par value.

USA TECHNOLOGIES, INC.
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Part I. Financial Information
Item 1. Consolidated Financial Statements

USA Technologies, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(\$ in thousands)	September 30, 2019	June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 25,540	\$ 27,464
Accounts receivable, less allowance of \$4,972 and \$4,866, respectively	17,120	21,712
Finance receivables, net	7,216	6,260
Inventory, net	9,344	10,908
Prepaid expenses and other current assets	1,808	1,558
Total current assets	61,028	67,902
Non-current assets:		
Finance receivables due after one year, net	12,710	11,596
Other assets	1,811	2,099
Property and equipment, net	7,697	9,180
Operating lease right-of-use assets	6,514	—
Intangibles, net	25,387	26,171
Goodwill	64,149	64,149
Total non-current assets	118,268	113,195
Total assets	\$ 179,296	\$ 181,097
Liabilities, convertible preferred stock and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 27,453	\$ 27,511
Accrued expenses	29,245	23,258
Capital lease obligations and current obligations under long-term debt	10,826	12,497
Income taxes payable	252	254
Deferred revenue	2,949	1,539
Total current liabilities	70,725	65,059
Long-term liabilities:		
Deferred income taxes	76	71
Capital lease obligations and long-term debt, less current portion	184	276
Operating lease liabilities, non-current	5,327	—
Accrued expenses, less current portion	—	100
Total long-term liabilities	5,587	447
Total liabilities	\$ 76,312	\$ 65,506
Commitments and contingencies (Note 13)		
Convertible preferred stock:		
Series A convertible preferred stock, 900,000 shares authorized, 445,063 issued and outstanding, with liquidation preferences of \$20,444 and \$20,111 at September 30, 2019 and June 30, 2019, respectively	3,138	3,138
Shareholders' equity:		
Preferred stock, no par value, 1,800,000 shares authorized, no shares issued	—	—
Common stock, no par value, 640,000,000 shares authorized, 60,008,481 shares issued and outstanding at September 30, 2019 and June 30, 2019	377,143	376,853
Accumulated deficit	(277,297)	(264,400)
Total shareholders' equity	99,846	112,453
Total liabilities, convertible preferred stock and shareholders' equity	\$ 179,296	\$ 181,097

See accompanying notes.

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

(\$ in thousands, except per share data)	Three months ended September 30,	
	2019	2018
Revenue:		
License and transaction fees	\$ 33,833	\$ 28,971
Equipment sales	8,313	4,551
Total revenue	42,146	33,522
Costs of sales:		
Cost of services	21,646	18,544
Cost of equipment	10,448	4,868
Total costs of sales	32,094	23,412
Gross profit	10,052	10,110
Operating expenses:		
Selling, general and administrative	18,171	9,450
Investigation and restatement expenses	3,699	4,526
Integration and acquisition costs	—	922
Depreciation and amortization	1,022	1,133
Total operating expenses	22,892	16,031
Operating loss	(12,840)	(5,921)
Other income (expense):		
Interest income	467	405
Interest expense	(465)	(786)
Total other income (expense), net	2	(381)
Loss before income taxes	(12,838)	(6,302)
Provision for income taxes	(59)	(18)
Net loss	(12,897)	(6,320)
Preferred dividends	(334)	(334)
Net loss applicable to common shares	\$ (13,231)	\$ (6,654)
Net loss per common share		
Basic	\$ (0.22)	\$ (0.11)
Diluted	\$ (0.22)	\$ (0.11)
Weighted average number of common shares outstanding		
Basic	60,096,852	60,053,912
Diluted	60,096,852	60,053,912

See accompanying notes.

USA Technologies, Inc.
Condensed Consolidated Statements of Shareholders' Equity
(Unaudited)

Three Month Period Ended September 30, 2019

(\$ in thousands)	Common Stock		Accumulated Deficit	Total
	Shares	Amount		
Balance, June 30, 2019	60,008,481	\$ 376,853	\$ (264,400)	\$ 112,453
Stock based compensation	—	290	—	290
Net loss	—	—	(12,897)	(12,897)
Balance, September 30, 2019	60,008,481	\$ 377,143	\$ (277,297)	\$ 99,846

Three Month Period Ended September 30, 2018

(\$ in thousands)	Common Stock		Accumulated Deficit	Total
	Shares	Amount		
Balance, June 30, 2018	59,998,811	\$ 375,436	\$ (232,748)	\$ 142,688
Cumulative effect adjustment for ASC 606 adoption	—	—	376	376
Stock based compensation	13,344	370	—	370
Net loss	—	—	(6,320)	(6,320)
Balance, September 30, 2018	60,012,155	\$ 375,806	\$ (238,692)	\$ 137,114

See accompanying notes.

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

(\$ in thousands)	Three months ended September 30,	
	2019	2018
OPERATING ACTIVITIES:		
Net loss	\$ (12,897)	\$ (6,320)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Non-cash stock based compensation	290	415
Gain on disposal of property and equipment	(15)	7
Non-cash interest and amortization of debt discount	338	22
Bad debt expense	(110)	509
Provision for inventory reserve	574	212
Depreciation and amortization	1,213	2,147
Non-cash lease expense	491	—
Deferred income taxes	5	4
Changes in operating assets and liabilities:		
Accounts receivable	4,677	(3,678)
Finance receivables, net	(384)	(63)
Inventory, net	992	1,707
Prepaid expenses and other assets	(412)	(220)
Accounts payable and accrued expenses	4,459	(8,665)
Operating lease liabilities	(399)	—
Deferred revenue	1,409	(210)
Income taxes payable	(2)	11
Net cash provided by (used in) operating activities	229	(14,122)
INVESTING ACTIVITIES:		
Purchase of property and equipment, including rentals	(420)	(693)
Proceeds from sale of property and equipment, including rentals	30	30
Net cash used in investing activities	(390)	(663)
FINANCING ACTIVITIES:		
Repayment of capital lease obligations and long-term debt	(1,763)	(959)
Proceeds from exercise of common stock options	—	42
Net cash used in financing activities	(1,763)	(917)
Net (decrease) increase in cash and cash equivalents	(1,924)	(15,702)
Cash and cash equivalents at beginning of year	27,464	83,964
Cash and cash equivalents at end of period	\$ 25,540	\$ 68,262
<i>Supplemental disclosures of cash flow information:</i>		
Interest paid in cash	\$ 205	\$ 740

See accompanying notes.

USA Technologies, Inc.
Condensed Notes to Consolidated Financial Statements
(Unaudited)

1. BUSINESS

USA Technologies, Inc. (the “Company”, “We”, “USAT”, or “Our”) was incorporated in the Commonwealth of Pennsylvania in January 1992. We are a provider of technology-enabled solutions and value-added services that facilitate electronic payment transactions and consumer engagement services primarily within the unattended Point of Sale (“POS”) market. We are a leading provider in the small ticket, beverage and food vending industry in the United States and are expanding our solutions and services to other unattended market segments, such as amusement, commercial laundry, kiosk and others. Since our founding, we have designed and marketed systems and solutions that facilitate electronic payment options, as well as telemetry and IoT services, which include the ability to remotely monitor, control, and report on the results of distributed assets containing our electronic payment solutions. Historically, these distributed assets have relied on cash for payment in the form of coins or bills, whereas, our systems allow them to accept cashless payments such as through the use of credit or debit cards or other emerging contactless forms, such as mobile payment. The connection to the ePort Connect platform also enables consumer loyalty programs, national rewards programs and digital content, including advertisements and product information to be delivered at the point of sale.

On November 9, 2017, the Company acquired all of the outstanding equity interests of Cantaloupe Systems, Inc. (“Cantaloupe”), pursuant to the Agreement and Plan of Merger (“Merger Agreement”). Cantaloupe is a premier provider of cloud and mobile solutions for vending, micro markets, and office coffee service. The acquisition expanded the Company’s existing platform to become an end-to-end enterprise platform integrating Cantaloupe’s Seed Cloud which provides cloud and mobile solutions for dynamic route scheduling, automated pre-kitting, responsive merchandising, inventory management, warehouse and accounting management, as well as cashless vending. The combined companies complete the value chain for customers by providing both top-line revenue generating services as well as bottom line business efficiency services to help operators of unattended retail machines run their business better. The combined product offering provides the data-rich Seed system with USAT’s consumer benefits, providing operators with valuable consumer data that results in customized experiences. In addition to new technology and services, due to Cantaloupe’s existing customer base, the acquisition expands the Company’s footprint into new global markets.

INTERIM FINANCIAL INFORMATION

The accompanying unaudited condensed consolidated financial statements of the Company 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 U.S. generally accepted accounting principles for complete financial statements and therefore should be read in conjunction with the Company’s June 30, 2019 Annual Report on Form 10-K. 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 months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ending June 30, 2020. The balance sheet at June 30, 2019 has been derived from the audited consolidated financial statements at that date, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

LIQUIDITY

The Company has adopted Accounting Standards Codification, (“ASC”) 205-40. This guidance amended the existing requirements for disclosing information about an entity’s ability to continue as a going concern and explicitly requires management to assess an entity’s ability to continue as a going concern and to provide related disclosures in certain circumstances. This guidance was effective for annual reporting periods ending after December 15, 2016, and for annual and interim reporting periods thereafter. The following information reflects the results of management’s assessment, plans and conclusion of the Company’s ability to continue as a going concern.

At September 30, 2019, the Company had \$25.5 million in cash and a working capital deficit of \$9.7 million. As noted in Note 9, as of September 30, 2019, the Company was not in compliance with the fixed charge coverage ratio and the total leverage ratio of its Revolving Credit Facility, which represents an event of default under the credit agreement. As a result, the Company has classified all amounts outstanding (\$10.0 million) under these credit facilities as current liabilities. Additionally, as of September 30, 2019, the Company identified sales tax liabilities and related interest in the aggregate amount of \$18.0 million. Also, the Company has reported aggregate net losses of \$50.8 million for the three year period ended June 30, 2019.

In response to its need to develop a cash management strategy, the Company developed a plan that included potentially seeking to extend the credit borrowings to beyond one year, securing a commitment for the sale of its long-term receivables, and obtaining outside financing.

Pursuant to a Stock Purchase Agreement dated October 9, 2019 between the Company and Antara Capital Master Fund LP (“Antara”), the Company sold to Antara 3,800,000 shares of the Company’s common stock at a price of \$5.25 per share for an aggregate purchase price of \$19,950,000. Antara qualifies as an accredited investor under Rule 501 of the Securities Act of 1933, as amended (the “Act”), and the offer and sale of the shares was exempt from registration under Section 4(a)(2) of the Act. Antara agreed not to dispose of the shares for a period of 90 days from the closing date. The Company also entered into a registration rights agreement (the “Registration Rights Agreement”) with Antara, pursuant to which the Company has agreed, at its expense, to file a registration statement under the Act with the Securities and Exchange Commission (the “SEC”) covering the resale of the shares by Antara (the “Registration Statement”). The Company will be required to pay certain negotiated cash payments to Antara in the event that the Registration Statement is not filed within 30 days of the closing date or if the Registration Statement is not declared effective within three months of the closing date, subject to the terms of the Registration Rights Agreement. On November 11, 2019, the Company received an extension of time to file the Registration Statement from Antara until November 26, 2019. In connection with the private placement, William Blair & Company, L.L.C. (“Blair”) acted as exclusive placement agent for the Company and received a cash placement fee of \$1.2 million.

On October 9, 2019, the Company also entered into a commitment letter (“Commitment Letter”) with Antara, pursuant to which Antara committed to extend to the Company a \$30.0 million senior secured term loan facility (“Term Facility”). Upon the execution of the Commitment Letter, the Company paid to Antara a non-refundable commitment fee of \$1.2 million. In connection with the Commitment Letter, Blair acted as exclusive placement agent for the Company and received a cash placement fee of \$750,000. On October 31, 2019, the Company entered into a Financing Agreement with Antara to draw \$15.0 million on the Term Facility and agreed to draw an additional \$15.0 million at any time between July 31, 2020 and April 30, 2021, subject to the terms of the Financing Agreement. The outstanding amount of the draws under the Term Facility bear interest at 9.75% per annum, payable monthly in arrears. The proceeds of the initial draw were used to repay the outstanding balance of the revolving line of credit loan due to JPMorgan Chase Bank, N.A. in the amount of \$10.1 million, including accrued interest payable, and to pay transaction expenses, and the Company intends to utilize the balance for working capital and general corporate purposes. The outstanding principal amount of the loan must be paid in full by no later than the maturity date of October 31, 2024.

As previously disclosed in our periodic reports and proxy statements, our independent Audit Committee chairperson, Robert Metzger is employed by Blair. Mr. Metzger receives discretionary compensation from Blair based on various activities including, among other things, training activities and business development.

The Company believes that its current financial resources, as of the date of the issuance of these consolidated financial statements, are sufficient to fund its current twelve month operating budget, alleviating any substantial doubt raised by our historical operating results and satisfying our estimated liquidity needs for twelve months from the issuance of these consolidated financial statements.

2. ACCOUNTING POLICIES

RECENT ACCOUNTING PRONOUNCEMENTS

Accounting pronouncements adopted

In February 2016, the FASB issued ASU 2016-02, Leases, which requires, among other items, lessees to recognize a right of use asset and a related lease liability for most leases on the balance sheet. Lessees and lessors are required to disclose quantitative and qualitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period and requires a modified retrospective application, with early adoption permitted. The Company adopted this new guidance on July 1, 2019, using the optional modified retrospective transition method applying the guidance to leases existing as of the effective date. The Company has determined that there was no cumulative-effect adjustment to beginning retained earnings on the consolidated balance sheet. We will continue to report periods prior to July 1, 2019 in our financial statements under prior guidance as outlined in Topic 840.

The Company’s adoption of ASU No. 2016-02 resulted in an increase in the Company’s assets and liabilities of approximately \$3.9 million at July 1, 2019. The Company’s adoption of ASU No. 2016-02 did not have a material impact to the Company’s consolidated statements of operations or its consolidated statements of cash flows. Further, there was no impact on the Company’s covenant compliance under its current debt agreements as a result of the adoption of ASU No. 2016-02. The Company elected the package of practical expedients included in this guidance, which allowed it to not reassess: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and, (iii) the initial direct costs for existing

leases. From a lessee perspective, the Company elected the practical expedient related to treating lease and non-lease components as a single lease component for all leases as well as electing a policy exclusion permitting leases with an original lease term of less than one year to be excluded from the Right-of-Use (“ROU”) assets and lease liabilities. From a lessor perspective, the Company also elected the practical expedient related to treating lease and non-lease components as a single component for those leases where the timing and pattern of transfer for the non-lease component and associated lease component are the same and the stand-alone lease component would be classified as an operating lease if accounted for separately. The combined component is then accounted for under Topic 606 or Topic 842 depending on the predominant characteristic of the combined component.

In June 2018, the FASB issued ASU No. 2018-07, “Compensation - Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting.” The standard simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. The Company adopted this ASU on July 1, 2019, and its adoption did not have a material effect on the Company’s condensed consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-09, “Codification Improvements”. These amendments provide clarifications and corrections to certain ASC subtopics including “Compensation - Stock Compensation - Income Taxes” (Topic 718-740), “Business Combinations - Income Taxes” (Topic 805-740) and “Fair Value Measurement - Overall” (Topic 820-10). The Company adopted this ASU on July 1, 2019, and its adoption did not have a material effect on the Company’s condensed consolidated financial statements.

Accounting pronouncements to be adopted

The Company is evaluating whether the effects of the following recent accounting pronouncements, or any other recently issued but not yet effective accounting standards, will have a material effect on the Company’s condensed consolidated financial position, results of operations or cash flows.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326).” The new guidance changes the accounting for estimated credit losses pertaining to certain types of financial instruments including, but not limited to, trade and lease receivables. This pronouncement will be effective for fiscal years beginning after December 15, 2019. Early adoption of the guidance is permitted for fiscal years beginning after December 15, 2018. The Company is currently evaluating and assessing the impact this guidance will have on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, “Intangibles—Goodwill and Other (Topic 350): Internal-Use Software.” This standard aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, which means that it will be effective for us in the first quarter of our fiscal year beginning July 1, 2020. The Company expects that the adoption of this ASU would not have a material impact on the Company’s condensed consolidated financial statements.

3. LEASES

Lessee Accounting

The Company determines if an arrangement is a lease at inception. The Company has operating and finance leases for office space, warehouses, automobiles and office equipment. USAT’s leases have lease terms of one year to eight years and some include options to extend and/or terminate the lease. The exercise of lease renewal options is at the Company’s sole discretion. When deemed reasonably certain of exercise, the renewal options are included in the determination of the lease term. The Company’s lease agreements do not contain any material variable lease payments, material residual value guarantees or any material restrictive covenants.

ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date of the lease based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. USAT has lease agreements with lease and non-lease components, which are accounted for together as a single lease component. Lease expense for operating lease payments are recognized on a straight-line basis over the lease term.

Variable lease payments that are not based on an index or that result from changes to an index subsequent to the initial measurement of the corresponding lease liability are not included in the measurement of lease ROU assets or liabilities and instead are recognized in earnings in the period in which the obligation for those payments is incurred.

At September 30, 2019, the Company has the following balances recorded in the balance sheet related to its lease arrangements:

(\$ in thousands)	Classification	As of September 30, 2019
Assets		
Operating leases	Operating lease right-of-use assets	\$ 6,514
Finance leases	Property and equipment, net	112
Liabilities		
Current:		
Operating leases	Accrued expenses	1,194
Finance leases	Capital lease obligations and current obligations under long-term debt	90
Non-current:		
Operating leases	Operating lease liabilities, non-current	5,327
Finance leases	Capital lease obligations and long-term debt, less current portion	\$ 25

Components of lease cost are as follows:

(\$ in thousands)	Three months ended September 30, 2019
Finance lease costs:	
Amortization of ROU assets	\$ 31
Interest on lease assets	3
Operating lease costs*	701
Total	\$ 735

* Includes short-term lease and variable lease costs, which are not material.

Supplemental cash flow information and non-cash activity related to our leases are as follows:

(\$ in thousands)	Three months ended September 30, 2019
Supplemental cash flow information:	
Cash paid for amounts included in the measurement of lease liabilities	
Financing cash flows from finance leases	\$ 23
Operating cash flows from finance leases	3
Operating cash flows from operating leases	495
Non-cash activity	
Right-of-use assets obtained in exchange for lease obligations:	
Finance lease liabilities	—
Operating lease liabilities	\$ 3,071

Weighted-average remaining lease term and discount rate for our leases are as follows:

	Three months ended September 30, 2019
Weighted-average remaining lease term	
Finance leases	1.5
Operating leases	5.6
Weighted-average discount rate	
Finance leases	9.0%
Operating leases	6.8%

Maturities of lease liabilities by fiscal year for our leases are as follows:

(\$ in thousands)	Operating Leases	Finance Leases
Remainder of 2020	\$ 1,259	\$ 79
2021	1,361	41
2022	1,379	12
2023	1,400	1
2024	998	1
Thereafter	1,520	—
Total lease payments	\$ 7,917	\$ 134
Less: Imputed interest	1,396	19
Present value of lease liabilities	\$ 6,521	\$ 115

In September 2019, the Company entered into an amendment to the lease for its headquarters in Malvern, Pennsylvania that has not yet commenced. The amendment grants the Company approximately 3,400 additional square feet of space in exchange for future minimum lease payments of approximately \$350 thousand. The amendment did not alter the lease term and will expire on November 30, 2023.

The Company's future minimum lease commitments as of June 30, 2019, under ASC Topic 840, the predecessor to Topic 842, are as follows:

(\$ in thousands)	Operating Leases	Capital Leases
2020	\$ 1,326	\$ 106
2021	1,151	34
2022	1,180	12
2023	1,208	1
2024	859	1
Thereafter	1,550	—
Total minimum lease payments	\$ 7,274	\$ 154
Less: interest		(14)
Present value of minimum lease payments, net		140
Less: current obligations under capital leases		(106)
Obligations under capital leases, noncurrent		\$ 34

Lessor Accounting

Lessor accounting remained substantially unchanged with the adoption of ASC Topic 842. The Company offers its customers financing for the lease of our POS electronic payment devices. We account for these transactions as sales-type leases. Our sales-type leases generally have a non-cancellable term of 60 months. Certain leases contain an end-of-term purchase option that is

generally insignificant and is reasonably certain to be exercised by the lessee. Leases that do not meet the criteria for sales-type lease accounting are accounted for as operating leases, typically our JumpStart program leases. JumpStart terms are typically 36 months and are cancellable with 30 to 60 days' written notice. As discussed in Note 2, the Company has elected to combine lease and non-lease components for its operating leases and account for the combined components under ASC 606, which is the predominant characteristic of the combined components. All QuickStart leases are sales-type and do not qualify for the election.

Lessor consideration is allocated between lease components and the non-lease components using the requirements under ASC 606. Revenue from sales-type leases is recognized upon shipment to the customer and the interest portion is deferred and recognized as earned. The revenues related to the sales-type leases are included in Equipment sales in the Consolidated Statements of Operations and a portion of the lease payments as interest income. Revenue from operating leases is recognized ratably over the applicable service period with service fee revenue related to the leases included in License and transaction fees in the Consolidated Statements of Operations.

Property and equipment used for the operating lease rental program consisted of the following:

(\$ in thousands)	September 30, 2019	June 30, 2019
Cost	\$ 30,503	36,285
Accumulated depreciation	(26,417)	(30,978)
Net	<u>\$ 4,086</u>	<u>\$ 5,307</u>

The Company's net investment in sales-type leases (carrying value of lease receivables) and the future minimum amounts to be collected on these lease receivables as of September 30, 2019 are disclosed within the Finance Receivables footnote. Refer to Note 6 for additional information.

4. REVENUE

Disaggregated Revenue

Based on similar operational and economic characteristics, the Company's revenue from contracts with customers is disaggregated by License and transaction fees and Equipment sales, as reported in the Company's Condensed Consolidated Statements of Operations. The Company believes these revenue categories depict how the nature, amount, timing, and uncertainty of its revenue and cash flows are influenced by economic factors, and also represent the level at which management makes operating decisions and assesses financial performance.

Transaction Price Allocated to Future Performance Obligations

In determining the transaction price allocated to unsatisfied performance obligations, we did not include non-recurring charges. Further, we applied the practical expedient to not consider arrangements with an original expected duration of one year or less, which are primarily month to month rental agreements. The majority of contracts are considered to have a contractual term of between 36 and 60 months based on implied and explicit termination penalties. These amounts will be converted into revenue in future periods as work is performed, primarily based on the services provided or at delivery and acceptance of products, depending on the applicable accounting method.

The following table reflects the estimated fees to be recognized in the future related to performance obligations that are unsatisfied at the end of the period:

(\$ in thousands)	As of September 30, 2019	
2020	\$	9,867
2021		11,317
2022		9,453
2023		6,514
2024 and thereafter		2,521
Total	<u>\$</u>	<u>39,672</u>

Contract Liabilities

The Company's contract liability (i.e., deferred revenue) balances are as follows:

(\$ in thousands)	Three months ended September 30, 2019
Deferred revenue, beginning of the period	1,539
Deferred revenue, end of the period	2,949
Revenue recognized in the period from amounts included in deferred revenue at the beginning of the period	129

The change in the contract liabilities period-over-period is primarily the result of timing difference between the Company's satisfaction of a performance obligation and payment from the customer.

Contract Costs

At September 30, 2019, the Company had net capitalized costs to obtain contracts of \$0.3 million included in Prepaid expenses and other current assets and \$1.6 million included in Other noncurrent assets on the Condensed Consolidated Balance Sheet. None of these capitalized contract costs were impaired. During the three months ended September 30, 2019, amortization of capitalized contract costs was \$0.1 million.

5. RESTRUCTURING/INTEGRATION COSTS

Subsequent to the Cantaloupe acquisition, the Company initiated workforce reductions to integrate the Cantaloupe business for which costs totaled \$2.1 million for the year ended June 30, 2018. The Company included these severance charges under "Integration and acquisition costs" within the Condensed Consolidated Statements of Operations, with the remaining outstanding balance included within "Accrued expenses" on the Condensed Consolidated Balance Sheet. Liabilities for severance will generally be paid during the next twelve months.

The following table summarizes the Company's severance activity for the three months ended September 30, 2019:

(\$ in thousands)	Workforce reduction
Balance at July 1, 2019	\$ 175
Plus: additions	26
Less: cash payments	—
Balance at September 30, 2019	\$ 201

6. FINANCE RECEIVABLES

The Company's finance receivables consist of financed devices under the Quickstart program and Cantaloupe devices contractually associated with the Seed platform. Predominately all of the Company's finance receivables agreements are classified as non-cancellable 60 month sales-type leases. As of September 30, 2019 and June 30, 2019 finance receivables consist of the following:

(\$ in thousands)	September 30, 2019	June 30, 2019
Finance receivables, net	\$ 7,216	6,260
Finance receivables due after one year, net	12,710	11,596
Total finance receivables, net of allowance of \$607 and \$606, respectively	\$ 19,926	\$ 17,856

The Company routinely evaluates outstanding finance receivables for impairment based on past due balances or accounts otherwise determined to be at a higher risk of loss. A finance receivable is classified as nonperforming if it is considered probable the Company will be unable to collect all contractual interest and principal payments as scheduled.

At September 30, 2019 and June 30, 2019, credit quality indicators consisted of the following:

(\$ in thousands)	September 30, 2019	June 30, 2019
Performing	\$ 19,926	\$ 17,856
Nonperforming	607	606
Total	\$ 20,533	\$ 18,462

An aged analysis of the Company's finance receivables as of September 30, 2019 and June 30, 2019 is as follows:

(\$ in thousands)	September 30, 2019	June 30, 2019
Current	\$ 19,338	\$ 17,506
30 days and under past due	182	200
31 - 60 days past due	79	43
61 - 90 days past due	200	145
Greater than 90 days past due	734	568
Total finance receivables	<u>\$ 20,533</u>	<u>\$ 18,462</u>

Cash to be collected on our finance receivables due for each of the fiscal years are as follows:

(\$ in thousands)		
2020		\$ 8,141
2021		5,758
2022		5,113
2023		3,505
2024		1,678
Thereafter		255
Total amounts to be collected		<u>24,450</u>
Less: interest		<u>\$ 3,917</u>
Total finance receivables		<u>\$ 20,533</u>

7. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share ("EPS") and diluted EPS are presented below:

(\$ in thousands, except per share data)	Three months ended September 30,	
	2019	2018
Numerator for basic and diluted loss per share		
Net loss	\$ (12,897)	\$ (6,320)
Preferred dividends	(334)	(334)
Net loss available to common shareholders	<u>\$ (13,231)</u>	<u>\$ (6,654)</u>
Denominator for basic loss per share - Weighted average shares outstanding		
	60,096,852	60,053,912
Effect of dilutive potential common shares	—	—
Denominator for diluted loss per share - Adjusted weighted average shares outstanding	<u>60,096,852</u>	<u>60,053,912</u>
Basic loss per share	<u>\$ (0.22)</u>	<u>\$ (0.11)</u>
Diluted loss per share	<u>\$ (0.22)</u>	<u>\$ (0.11)</u>

Anti-dilutive shares excluded from the calculation of diluted loss per share were 1,293,317 for the three months ended September 30, 2019 and 1,420,301 for the three months ended September 30, 2018.

8. GOODWILL AND INTANGIBLES

Intangible asset balances and goodwill consisted of the following:

(\$ in thousands)	As of September 30, 2019			Amortization Period
	Gross	Accumulated Amortization	Net	
Intangible assets:				
Non-compete agreements	\$ 2	\$ (2)	\$ —	2 years
Brand and tradenames	1,695	(527)	1,168	3 - 7 years
Developed technology	10,939	(3,727)	7,212	5 - 6 years
Customer relationships	19,049	(2,042)	17,007	10 - 18 years
Total intangible assets	\$ 31,685	\$ (6,298)	\$ 25,387	
Goodwill	64,149	—	64,149	Indefinite
Total intangible assets & goodwill	\$ 95,834	\$ (6,298)	\$ 89,536	
(\$ in thousands)	As of June 30, 2019			Amortization Period
	Gross	Accumulated Amortization	Net	
Intangible assets:				
Non-compete agreements	\$ 2	\$ (2)	\$ —	2 years
Brand and tradenames	1,695	(470)	1,225	3 - 7 years
Developed technology	10,939	(3,266)	7,673	5 - 6 years
Customer relationships	19,049	(1,776)	17,273	10 - 18 years
Total intangible assets	\$ 31,685	\$ (5,514)	\$ 26,171	
Goodwill	64,149	—	64,149	Indefinite
Total intangible assets & goodwill	\$ 95,834	\$ (5,514)	\$ 90,320	

For the three months ended September 30, 2019 and 2018 each there was \$0.8 million in amortization expense related to intangible assets.

9. DEBT AND OTHER FINANCING ARRANGEMENTS

The Company's debt and other financing arrangements as of September 30, 2019 and June 30, 2019 consisted of the following:

(\$ in thousands)	As of September 30, 2019	As of June 30, 2019
Revolving Credit Facility	\$ 10,000	\$ 10,000
Term Loan	—	1,458
Other, including capital lease obligations	1,010	1,323
Less: unamortized issuance costs	—	(8)
Total	11,010	12,773
Less: debt and other financing arrangements, current	(10,826)	(12,497)
Debt and other financing arrangements, noncurrent	\$ 184	\$ 276

Details of interest expense presented on the Condensed Consolidated Statements of Operations are as follows:

(\$ in thousands)	Three months ended September 30,	
	2019	2018
Revolving Credit Facility	\$ 77	\$ 175
Term Loan	160	350
Other interest expense	228	261
Total interest expense	\$ 465	\$ 786

Revolving Credit Facility and Term Loan

On November 9, 2017, in connection with the acquisition of Cantaloupe, the Company entered into a five year credit agreement among the Company, as the borrower, its subsidiaries, as guarantors, and JPMorgan Chase Bank, N.A., as the lender and administrative agent for the lender (the "Lender"), pursuant to which the Lender (i) made a \$25 million Term Loan to the Company and (ii) provided the Company with the Revolving Credit Facility under which the Company may borrow revolving credit loans in an aggregate principal amount not to exceed \$12.5 million at any time.

The proceeds of the Term Loan and borrowings under the Revolving Credit Facility, in an aggregate principal amount equal to \$35.0 million, were used by the Company to finance a portion of the purchase price for the acquisition of Cantaloupe (\$27.8 million) and repay existing indebtedness (\$7.2 million). All advances under the Revolving Credit Facility and all other obligations must be paid in full at maturity on November 9, 2022.

Loans under the five year credit agreement bear interest, at the Company's option, by reference to a base rate or a rate based on LIBOR, in either case, plus an applicable margin determined quarterly based on the Company's Total Leverage Ratio as of the last day of each fiscal quarter. The applicable interest rate on the loans for the three months ended September 30, 2019 is LIBOR plus 4%. The Term Loan and Revolving Credit Facility contain customary representations and warranties and affirmative and negative covenants and require the Company to maintain a minimum quarterly total leverage ratio and fixed charge coverage ratio. The Revolving Credit Facility and Term Loan also require the Company to furnish various financial information on a quarterly and annual basis.

Due to the Company's delay in filing its periodic reports, between September 28, 2018, and September 30, 2019, the parties entered into various agreements to provide for the extension of the delivery of the Company's financial information required under the terms of the credit agreement. In connection with these agreements, the Company incurred extension fees due to the lender, totaling \$0.2 million, between September 28, 2018 and September 30, 2019. Additionally, during the quarter ended March 31, 2019 the Company prepaid \$20.0 million of the balance outstanding under the Term Loan, \$0.6 million of which was applied to the installment payment due on March 31, 2019 and the remainder of which was applied to the last repayment installment obligations due under the Term Loan. On September 30, 2019, the Company prepaid the remaining principal balance of the Term Loan of \$1.5 million and agreed to permanently reduce the amount available under the Revolving Credit Facility to \$10 million which represented the outstanding balance on the date thereof. The agreements also provide that the Company cannot incur additional borrowings on the Revolving Credit Facility without the Lender's prior consent. Further, the parties agreed that the applicable interest rate on the Revolving Credit Facility and Term Loan will be LIBOR plus 4% until such time as the Company delivers certain financial information required under the credit agreement. On October 31, 2019, the Company repaid the outstanding balance on the Revolving Credit Facility.

On March 29, 2019 and September 18, 2019, the Company obtained waivers of an event of default under the credit agreement. The event of default is the result of the Company having maintained deposits on account with a financial institution in excess of the amounts permitted by the credit agreement and not having transferred certain deposit accounts to the Lender. The waiver requires the Company to remedy the event of default by March 31, 2020 by which time the Company expects to be in compliance with the underlying covenant. As of September 30, 2019, the Company is not in compliance with the fixed charge coverage ratio and the total leverage ratio, which represents an event of default under the credit agreement. The Company has classified all amounts outstanding under the Revolving Credit Facility and Term Loan as current liabilities as of September 30, 2019 and June 30, 2019.

On October 31, 2019, the Company entered into a Financing Agreement with Antara to draw \$15.0 million on the Term Facility and agreed to draw an additional \$15.0 million at any time between July 31, 2020 and April 30, 2021, subject to the terms of the Financing Agreement. The outstanding amount of the draws under the Term Facility bear interest at 9.75% per annum, payable monthly in arrears. The proceeds of the initial draw were used to repay the outstanding balance of the revolving line of credit loan

due to JPMorgan Chase Bank, N.A. in the amount of \$10.1 million, including accrued interest payable, and to pay transaction expenses, and the Company intends to utilize the balance for working capital and general corporate purposes. The outstanding principal amount of the loan must be paid in full by no later than the maturity date of October 31, 2024.

Other Long-Term Borrowings

In connection with the acquisition of Cantaloupe, the Company assumed debt of \$1.8 million with an outstanding balance of \$0.6 million and \$0.8 million as of September 30, 2019 and June 30, 2019, respectively, comprised of: (i) \$0.1 million and \$0.2 million of promissory notes bearing an interest rate of 5% and maturing on April 5, 2020 with principal and interest payments due monthly; (ii) \$0.4 million and \$0.4 million of promissory notes bearing an interest rate of 10% and maturing on April 1, 2021 with principal and interest payments due quarterly; and (iii) \$0.1 million and \$0.1 million of promissory notes bearing an interest rate of 12% and maturing on December 15, 2019 with principal and interest payments due quarterly.

10. FAIR VALUE MEASUREMENTS

The Company's financial instruments are carried at cost which approximates fair value. The Company classifies its financial instruments, which are primarily cash equivalents, accounts receivable, accounts payable and accrued expenses as Level 1 investments of the fair value hierarchy because these instruments are carried at cost which approximates fair value due to the short-term maturity of these instruments.

The Company's obligations under its long-term debt agreements are carried at amortized cost, which approximates their fair value. The fair value of the Company's obligations under its long-term debt agreements are considered Level 2 investments of the fair value hierarchy because these instruments have interest rates that reset frequently.

11. INCOME TAXES

For the three months ended September 30, 2019, the Company recorded an income tax provision of \$59 thousand. As of September 30, 2019, the Company continued to record a full valuation against its deferred tax assets. The income tax provision primarily relates to the Company's uncertain tax positions, as well as state income and franchise taxes. As of September 30, 2019, the Company had a total unrecognized income tax benefit of \$0.2 million. The Company is actively working with the tax authorities related to the majority of this uncertain tax position and it is reasonably possible that a majority of the uncertain tax position will be settled within the next 12 months. The provision is based upon actual loss before income taxes for the three months ended September 30, 2019, as the use of an estimated annual effective income tax rate does not provide a reliable estimate of the income tax provision.

For the three months ended September 30, 2018, an income tax provision of \$18 thousand was recorded, which primarily relates to state income and franchise taxes. The provision is based upon actual loss before income taxes for the three months ended September 30, 2018, as the use of an estimated annual effective income tax rate does not provide a reliable estimate of the income tax provision.

12. EQUITY

WARRANTS

The Company had 23,978 warrants outstanding as of September 30, 2019 and June 30, 2019, all of which were exercisable at \$5.00 per share. The warrants have an expiration date of March 29, 2021.

STOCK OPTIONS

The Company estimates the grant date fair value of the stock options it grants using a Black-Scholes valuation model. The Company's assumption for expected volatility is based on its historical volatility data related to market trading of its own common stock. The Company bases its assumptions for expected life of the new stock option grants on the life of the option granted, and if relevant, its analysis of the historical exercise patterns of its stock options. The dividend yield assumption is based on dividends expected to be paid over the expected life of the stock option. The risk-free interest rate assumption is determined by using the U.S. Treasury rates of the same period as the expected option term of each stock option.

In July 2017, 135,000 stock options were granted for 11 employees vesting 1/3 on July 26, 2018, 1/3 on July 26, 2019 and 1/3 on July 26, 2020 expiring if not exercised prior to July 26, 2022. The options are intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended.

In August 2017, the Company awarded stock options to its Chief Executive Officer and Chief Financial Officer to purchase up to 19,047 and 25,000 shares respectively of common stock at an exercise price of \$5.25 per share. The Chief Executive Officer options vest on August 16, 2018, expiring if not exercised prior to August 16, 2024. The Chief Financial Officer options vest 1/3 on August 16, 2018, 1/3 on August 16, 2019 and 1/3 on August 16, 2020, expiring if not exercised prior to August 16, 2024. The Chief Executive Officer options are intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, and the Chief Financial Officer options are non-qualified stock options.

In September 2018, the Company awarded stock options to 102 employees to purchase up to 400,000 shares of common stock at an exercise price of \$8.75 which vest 1/3 each year.

The Company did not award any stock options during the quarter ended September 30, 2019.

The fair value of options granted during the three months ended September 30, 2018 was determined using the following assumptions:

	Three months ended September 30,	
	2018	
Expected volatility (percent)		58.4%
Expected life (years)		4.5
Expected dividends		0.0%
Risk-free interest rate (percent)		2.91%
Number of options granted		400,000
Weighted average exercise price	\$	8.75
Weighted average grant date fair value	\$	4.37

Stock based compensation related to all stock options for the three months ended September 30, 2019 was \$0.2 million and \$0.1 million for the three months ended September 30, 2018.

COMMON STOCK

On July 2, 2018, 6,677 shares were awarded to each non-employee director for a total of 40,062 shares. The shares vest on a monthly basis over the two year period following July 2, 2018. The total expense recognized for these grants for the three months ended September 30, 2019 was \$42 thousand and for the three months ended September 30, 2018 was \$0.2 million.

LONG TERM INCENTIVE PLANS

The Company did not award any long-term stock incentive compensation to its executive officers during the 2019 fiscal year.

The Company had long-term stock incentive plans (“LTI”) in prior fiscal years for its then executive officers. Stock based compensation related to the LTI plans was as follows in the three months ended September 30, 2019 and 2018:

(\$ in thousands)	Three months ended September 30,	
	2019	2018
FY18 LTI Plan	\$ 8	\$ 30
FY17 LTI Plan	—	26
Total	\$ 8	\$ 56

13. COMMITMENTS AND CONTINGENCIES

Eastern District of Pennsylvania Consolidated Shareholder Class Actions

As previously reported, various putative shareholder class actions had been filed in the United States District Court for the District of New Jersey against the Company, its chief executive officer and chief financial officer at the relevant time, its directors at the relevant time, and the investment banks who served as underwriters in the May 2018 follow-on public offering of the Company (the “Underwriters”). These complaints alleged violations of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. These various actions were consolidated by the Court into one action (the “Consolidated Action”). On September 30, 2019, the Court granted the Motion to Transfer filed by the Company and its former chief executive officer, and

transferred the Consolidated Action to the United States District Court for the Eastern District of Pennsylvania, Docket No. 19-cv-04565. On October 18, 2019, the Court entered an Order approving the parties' stipulation which provided for the filing of an amended complaint by no later than November 20, 2019, a date for the defendants to respond thereto, and a briefing schedule, if necessary.

Chester County, Pennsylvania Class Action

As previously reported, a putative shareholder class action was filed against the Company, its chief executive officer and chief financial officer at the relevant time, its directors at the relevant time, and the Underwriters, in the Court of Common Pleas, Chester County, Pennsylvania, Docket No. 2019-04821-MJ. The complaint alleged violations of the Securities Act of 1933, as amended. As also previously reported, on September 20, 2019 the Court granted the defendants' Petition for Stay and stayed the action until the Consolidated Action reaches a final disposition. On October 18, 2019, plaintiff filed an appeal to the Pennsylvania Superior Court from the Order granting defendants' Petition for Stay, Docket No. 3100 EDA 2019.

14. SUBSEQUENT EVENTS

CEO resignation

On October 17, 2019, Stephen P. Herbert resigned as Chief Executive Officer (the "CEO") and as a member of the Company's Board of Directors. On the same date, the Company's Board of Directors appointed Donald W. Layden, Jr., as interim CEO of the Company. Mr. Layden has served as a member of the Company's Board of Directors since April 2019.

In the course of finalizing the severance package for our prior CEO, Stephen Herbert, we identified payments made on Mr. Herbert's behalf to the Company's business travel partner, American Express, prior to Mr. Herbert providing reimbursement to the Company. These payments may be classified as loans. The Company is in the process of arranging the final severance amounts to Mr. Herbert taking into account the outstanding balance of approximately \$30,000.

Shareholder rights plan and dividend distribution

On October 18, 2019, the Company's Board of Directors adopted a shareholder rights plan and declared a dividend distribution of one right on each outstanding share of the Company's common stock. The rights plan will be put to a vote of shareholders at the next annual meeting, and will automatically terminate if approval is not obtained. If shareholder approval is obtained at the meeting, the shareholder rights plan will expire on October 18, 2020.

The rights will be exercisable only if a person or group acquires 15% or more of the Company's outstanding common stock. If a shareholder's beneficial ownership of common stock as of the time of this announcement is at or above the 15% threshold, that shareholder's existing ownership percentage would be grandfathered, but the rights would become exercisable if at any time after this announcement the shareholder acquires beneficial ownership of additional shares. Each right will entitle shareholders to buy one one-hundredth of a share of a new series of junior participating preferred stock at an exercise price of \$30.

If a person or group acquires 15% of the Company's outstanding common stock, each right will entitle its holder (other than such person or members of such group) to purchase for \$30, a number of Company common shares having a market value of twice such price. In addition, at any time after a person or group acquires 15% of the Company's outstanding common stock, the Company's Board of Directors may exchange one share of the Company's common stock for each outstanding right (other than rights owned by such person or group, which would have become void).

Prior to the acquisition by a person or group of beneficial ownership of 15% of the Company's common stock, the rights are redeemable for one cent per right at the option of the Board of Directors.

The dividend distribution was made to holders of record as of October 28, 2019, and was not taxable to shareholders.

2020 Long-Term Stock Incentive Plan

In October 2019, the Company's Board of Directors approved the Fiscal Year 2020 Long-Term Stock Incentive Plan which provides that each executive officer would be awarded shares of common stock of the Company in the event that certain metrics relating to the Company's 2020 fiscal year would result in specified ranges of year-over-year percentage growth. The metrics are total number of connections as of June 30, 2020 as compared to total number of connections as of June 30, 2019 (40% weighting) and

adjusted EBITDA earned during the 2020 fiscal year as compared to the adjusted EBITDA earned during the 2019 fiscal year (60% weighting). If none of the minimum threshold year-over-year percentage target goals are achieved, the executive officers would not be awarded any shares. Assuming the minimum threshold year-over-year percentage target goal would be achieved for a particular metric, the number of shares to be awarded for that metric would be determined on a pro rata basis, provided that the award would not exceed the maximum distinguished award for that metric (which in any event cannot exceed 150% of the executive officer's target bonus award). Any shares awarded under the plan would vest as follows: one-third at the time of issuance; one-third on June 30, 2021; and one-third on June 30, 2022.

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 within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, 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 unrelated to our operating performance;
- the ability of the Company to raise funds in the future through sales of securities or debt financing in order to sustain its operations if an unexpected or unusual event would occur;
- the ability of the Company to compete with its competitors to obtain market share;
- whether the Company's current or future customers purchase, lease, rent or utilize ePort devices or our other products in the future at levels currently anticipated by our 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;
- the ability of the Company to satisfy its trade obligations included in accounts payable and accrued expenses;
- the ability of the Company to sell to third party lenders all or a portion of our finance receivables;
- the ability of a sufficient number of our customers to utilize third party financing companies under our QuickStart program in order to improve our net cash used by operating activities;
- the incurrence by us of any unanticipated or unusual non-operating expenses which would require us to divert our cash resources from achieving our business plan;
- the ability of the Company to predict or estimate its future quarterly or annual revenue and expenses given the developing and unpredictable market for its products;
- the ability of the Company to retain key customers from whom a significant portion of its revenue are derived;
- the ability of a key customer to reduce or delay purchasing products from the Company;
- the ability of the Company to obtain widespread commercial acceptance of its products and service offerings such as ePort QuickConnect, mobile payment and loyalty programs;
- whether any patents issued to the Company will provide the Company with any competitive advantages or adequate protection for its products, or would be challenged, invalidated or circumvented by others;
- the ability of the Company to operate without infringing the intellectual property rights of others;
- the ability of our products and services to avoid unauthorized hacking or credit card fraud;
- whether we continue to experience material weaknesses in our internal controls over financial reporting in the future, and are not able to accurately or timely report our financial condition or results of operations;
- whether our suppliers would increase their prices, reduce their output or change their terms of sale;
- the ability of the Company to sell to third party lenders all or a portion of our finance receivables, or to do so in a timely manner;

- whether the appeal to the Nasdaq Listing and Hearing Review Council of the suspension of trading of the Company's securities on The Nasdaq Stock Market LLC ("Nasdaq") will be successful or result in the reinstatement of trading of the Company's securities, or whether any listing application which may be filed by the Company to relist the Company's securities on Nasdaq would be granted;
- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes may be impaired; and
- the risks associated with the currently pending litigation or possible regulatory action arising from the internal investigation and its findings, from the failure to timely file our periodic reports with the SEC, from the restatement of the affected financial statements, from allegations related to the registration statement for the follow-on public offering, or from potential litigation or other claims arising from the shareholder demands for derivative action.

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 or those discussed under Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended June 30, 2019 (the "2019 Form 10-K"). 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.

OVERVIEW OF THE COMPANY

USA Technologies, Inc. provides wireless networking, cashless transactions, asset monitoring, and other value-added services principally to the small ticket, unattended Point of Sale ("POS") market. Our ePort® technology can be installed and/or embedded into everyday devices such as vending machines, a variety of kiosks, amusement games, and commercial laundry via either our ePort hardware or our Quick Connect solution. Our associated service, ePort Connect®, is a PCI-compliant, comprehensive service that includes simplified credit/debit card processing and support, consumer engagement services as well as telemetry, Internet of Things ("IoT"), and machine-to-machine ("M2M") services, including the ability to remotely monitor, control and report on the results of distributed assets containing our electronic payment solutions.

The Company generates revenue in multiple ways. During the three months ended September 30, 2019, we derived approximately 80% of our revenue from recurring license and transaction fees related to our ePort Connect service and approximately 20% of our revenue from equipment sales. Connections to our service stem from the sale or lease of our POS electronic payment devices, certified payment software, or the servicing of similar third-party installed POS terminals. Connections to the ePort Connect service are the most significant driver of the Company's revenue, particularly the recurring revenue from license and transaction fees. Customers can obtain POS electronic payment devices from us in the following ways:

- Purchasing devices directly from the Company or one of its authorized resellers;
- Financing devices under the Company's QuickStart Program, which are non-cancellable sixty month sales-type leases, through an unrelated equipment financing company, if available, or directly from the Company; and
- Renting devices under the Company's JumpStart Program, which are cancellable month-to-month operating leases.

As of September 30, 2019, highlights of the Company are below:

- Headquarters in Malvern, Pennsylvania;
- Over 120 employees;
- Over 20,000 customers and approximately 1,215,000 connections to our service;
- Three direct sales teams at the national, regional, and local customer-level and a growing number of OEMs and national distribution partners;

- The Company's fiscal year ends June 30th.

As indicated in our 2019 Form 10-K, as a result of our failure to comply with our periodic reporting obligations, on September 26, 2019, our securities were suspended from trading on Nasdaq and are currently quoted on the OTC Markets. On October 8, 2019, and pursuant to applicable Nasdaq rules, we filed an appeal to the Nasdaq Listing and Hearing Review Council from the Nasdaq Hearing Panel's determination to delist the Company's securities from trading. There can be no assurance that our appeal will be successful or result in the reinstatement of trading of the Company's securities, or whether any listing application which may be filed by the Company to relist the Company's securities on Nasdaq would be granted.

CRITICAL ACCOUNTING POLICIES

There have been no significant changes to the critical accounting policies disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2019 Form 10-K.

Recent Accounting Pronouncements

See Note 2 to the interim Condensed Consolidated Financial Statements for a description of recent accounting pronouncements.

TRENDING QUARTERLY FINANCIAL DATA

The following tables show certain financial and non-financial data that management believes give readers insight into certain trends and relationships about the Company's financial performance.

Five Quarter Select Key Performance Indicators including Connections

	As of and for the three months ended				
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
Connections:					
Gross new connections	49,000	47,000	51,000	36,000	26,000
Net new connections	46,000	43,000	46,000	33,000	19,000
Total connections	1,215,000	1,169,000	1,126,000	1,080,000	1,047,000
Customers:					
New customers added	900	825	925	650	800
Total customers	20,300	19,400	18,575	17,650	17,000
Volumes:					
Total number of transactions (millions)	232.7	229.6	217.2	204.6	195.8
Total volume (millions)	\$ 461.2	\$ 453.0	\$ 420.3	\$ 392.2	\$ 381.5
Financing structure of connections:					
JumpStart	3.4%	10.1%	1.8%	7.8%	4.1%
QuickStart & all others ^(a)	96.6%	89.9%	98.2%	92.2%	95.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

a) Includes credit sales with standard trade receivable terms.

Highlights of USAT's connections for the quarter ended September 30, 2019 include:

- 46,000 additional net new connections during the quarter; and
- 1,215,000 total connections to our service compared to the same quarter last year of approximately 1,047,000 total connections to our service, an increase of 168,000 connections, or 16%.

Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018
Revenue and Gross Profit

(\$ in thousands)	Three months ended September 30,		Percent Change
	2019	2018	
Revenue:			
License and transaction fees	\$ 33,833	\$ 28,971	16.8 %
Equipment sales	8,313	4,551	82.7 %
Total Revenue	42,146	33,522	25.7 %
Costs of sales:			
Cost of services	21,646	18,544	16.7 %
Cost of equipment	10,448	4,868	114.6 %
Total costs of sales	32,094	23,412	37.1 %
Gross profit:			
License and transaction fees	12,187	10,427	16.9 %
Equipment sales	(2,135)	(317)	573.5 %
Total gross profit	\$ 10,052	\$ 10,110	(0.6)%

Revenue. Total revenue increased \$8.6 million for the three months ended September 30, 2019 compared to the same period in 2018. The growth in total revenue resulted from a \$4.9 million increase in license and transaction fee revenue for the three months ended September 30, 2019 compared to the same period in 2018, mostly driven by the increase in connection count which caused an increase in license fee and processing fees, and a \$3.8 million increase in equipment revenue for the three months ended September 30, 2019 compared to the same period in 2018 driven by higher shipments compared to the same period last year.

Cost of sales. Cost of sales increased \$8.7 million for nine months ended September 30, 2019 compared to the same period in 2018. The increase was driven by a \$3.1 million increase in cost of services driven by an increase in transaction processing costs commensurate with the increase in transaction processing fees for the quarter and a \$5.6 million increase in cost of equipment sales, resulting from higher shipments compared to the same period last year.

Gross margin. Total gross margin decreased 6.3%, from 30.2% for the three months ended September 30, 2018 to 23.9% for the three months ended September 30, 2019. The decrease was driven primarily by a lower equipment margin resulting from a large equipment sale made to a strategic customer during the current quarter, reflecting our strategy of using equipment sales as an enabler for driving longer-term, higher margin license and transaction fees. License and transaction processing margin remained consistent compared to the same period last year.

Operating Expenses

Category (\$ in thousands)	Three months ended September 30,		Percent Change
	2019	2018	
Selling, general and administrative expenses	\$ 18,171	\$ 9,450	92.3 %
Investigation and restatement expenses	3,699	4,526	(18.3)%
Integration and acquisition costs	—	922	NM
Depreciation and amortization	1,022	1,133	(9.8)%
Total operating expenses	\$ 22,892	\$ 16,031	42.8 %

NM — not meaningful

Selling, general and administrative expenses. Selling, general and administrative expenses increased approximately \$8.7 million for the three months ended September 30, 2019, as compared to the same period in 2018. This change was primarily driven by an increase in professional services costs primarily related to the Company's restatement project and related audit activities.

Investigation and restatement expenses. Investigation and restatement expenses were incurred beginning in the first quarter of fiscal year 2019 through the end of the first quarter of fiscal year 2020 in connection with the Audit Committee's investigation, the restatements of previously filed financial statements, bank consents, and the ongoing remediation of deficiencies in our internal control over financial reporting.

Integration and acquisition costs. Integration and acquisition costs were \$0.9 million for the three months ended September 30, 2018 due to the completion of the Cantaloupe acquisition.

Depreciation and amortization. Depreciation and amortization expense was consistent with the same period in 2018.

Other Income (Expense), Net

(\$ in thousands)	Three months ended September 30,		Percent Change
	2019	2018	
Other income (expense):			
Interest income	\$ 467	\$ 405	15.3 %
Interest expense	(465)	(786)	(40.8)%
Total other income (expense), net	\$ 2	\$ (381)	(100.5)%

Other income (expense), net. Other income (expense), net decreased \$0.4 million for the three months ended September 30, 2019 compared to the same period in 2018 due to the prepayments in fiscal year 2019 on the Term Loan which reduced the amount of interest expense to be recorded in fiscal year 2020.

Income Taxes

(\$ in thousands)	Three months ended September 30,		Percent Change
	2019	2018	
Provision for income taxes	\$ (59)	\$ (18)	227.8%

Income taxes. For the three months ended September 30, 2019, a tax provision of \$59 thousand was recorded which primarily relates to the Company's uncertain tax positions, as well as state income and franchise taxes. As of September 30, 2019, the Company had a total unrecognized income tax benefit of \$0.2 million. The Company is actively working with the tax authorities related to the majority of this uncertain tax position and it is reasonably possible that a majority of the uncertain tax position will be settled within the next 12 months. The provision is based upon actual loss before income taxes for the three months ended September 30, 2019, as the use of an estimated annual effective income tax rate does not provide a reliable estimate of the income tax provision.

For the three months ended September 30, 2018, a tax provision of \$18 thousand was recorded which primarily relates to state income and franchise taxes. The provision is based upon actual loss before income taxes for the three months ended September 30, 2018, as the use of an estimated annual effective income tax rate does not provide a reliable estimate of the income tax provision.

Reconciliation of Net Loss to Adjusted EBITDA

(\$ in thousands)	Three months ended September 30,	
	2019	2018
Net loss	\$ (12,897)	\$ (6,320)
Less: interest income	(467)	(405)
Plus: interest expense	465	786
Plus: income tax provision	59	18
Plus: depreciation expense	428	1,355
Plus: amortization expense	785	792
EBITDA	(11,627)	(3,774)
Plus: stock-based compensation	290	415
Plus: litigation related professional expenses	114	6
Plus: investigation and restatement expenses	3,699	4,526
Plus: integration and acquisition costs	—	922
Adjustments to EBITDA	4,103	5,869
Adjusted EBITDA	\$ (7,524)	\$ 2,095

As used herein, Adjusted EBITDA represents net income (loss) before interest income, interest expense, income taxes, depreciation, amortization, non-recurring fees and charges that were incurred in connection with the acquisition and integration of businesses, non-recurring fees and charges that were incurred in connection with the Audit Committee investigation and financial statement restatement activities, class action litigation or activist related expenses, and stock-based compensation expense. We have excluded the non-cash expense, stock-based compensation, as it does not reflect our cash-based operations. We have excluded the non-recurring costs and expenses incurred in connection with business acquisitions in order to allow more accurate comparison of the financial results to historical operations. We have excluded the professional fees incurred in connection with the class action litigation or the activist related matters as well as the non-recurring costs and expenses related to the Audit Committee investigation and financial statement restatement activities because we believe that they represent charges that are not related to our operations. Adjusted EBITDA is a non-GAAP financial measure which is not required by or defined under GAAP (Generally Accepted Accounting Principles). We use these non-GAAP financial measures for financial and operational decision-making purposes and as a means to evaluate period-to-period comparisons. We believe that these non-GAAP financial measures provide useful information about our operating results, enhance the overall understanding of past financial performance and future prospects and allow for greater transparency with respect to metrics used by our management in its financial and operational decision making. 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 our net income or net loss 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 our net income or net loss as determined in accordance with GAAP, and are not a substitute for or a measure of our profitability or net earnings. Adjusted EBITDA is presented because we believe it is useful to investors as a measure of comparative operating performance. Additionally, we utilize Adjusted EBITDA as a metric in our executive officer and management incentive compensation plans.

Reconciliation of Net Loss to Non-GAAP Net Income (Loss)

(\$ in thousands)	Three months ended September 30,	
	2019	2018
Net loss	\$ (12,897)	\$ (6,320)
Non-GAAP adjustments:		
Non-cash portion of income tax provision	5	4
Amortization expense	785	792
Stock-based compensation	290	415
Litigation related professional fees	114	6
Investigation and restatement expenses	3,699	4,526
Integration and acquisition costs	—	922
Non-GAAP net (loss) income	\$ (8,004)	\$ 345

As used herein, non-GAAP net income (loss) represents GAAP net loss excluding costs or benefits relating to any non-cash portions of the Company's income tax provision, amortization expense related to our acquisition-related intangibles, non-recurring fees and charges that were incurred in connection with the acquisition and integration of businesses, non-recurring fees and charges that were incurred in connection with the Audit Committee investigation and financial statement restatement activities, and class-action litigation or activist related expenses. Management believes that non-GAAP net income (loss) is an important measure of USAT's business. Non-GAAP net income (loss) is a non-GAAP financial measure which is not required by or defined under GAAP. 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. Management believes that non-GAAP net loss is an important measure of the Company's business. Management uses the aforementioned non-GAAP measure to monitor and evaluate ongoing operating results and trends and to gain an understanding of our comparative operating performance. We believe that this non-GAAP financial measure serves as a useful metric for our management and investors because they enable a better understanding of the long-term performance of our core business and facilitate comparisons of our operating results over multiple periods, and when taken together with the corresponding GAAP financial measures and our reconciliations, enhance investors' overall understanding of our current and future financial performance. Additionally, the Company utilizes non-GAAP net income (loss) as a metric in its executive officer and management incentive compensation plans.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities was \$0.2 million for the three months ended September 30, 2019 compared to cash used of \$14.1 million in the same period in fiscal year 2018. The change reflects a change in net expense for non-cash operating activities of \$0.5 million, and net cash provided by the change in various operating assets and liabilities of \$21.5 million. The change in operating assets and liabilities is primarily driven by the change of accounts receivable of \$8.4 million and the change of accounts payable and accrued expenses of \$13.1 million.

Cash used in investing activities was \$0.4 million for the three months ended September 30, 2019 compared to cash used of \$0.7 million in the same period in fiscal year 2018. The change was consistent between periods.

Cash used in financing activities was \$1.8 million for the nine months ended September 30, 2019 compared to cash used of \$0.9 million in the same period in fiscal year 2018. The change was primarily due to the Term Loan repayment of \$1.5 million made on September 30, 2019.

Sources and Uses of Cash

Due to the Company's delay in filing its periodic reports, between September 28, 2018, and September 30, 2019, the parties entered into various agreements to provide for the extension of the delivery of the Company's financial information and related compliance certificates required under the terms of the credit agreement which are required to be delivered to the Lender by no later than October 31, 2019. In connection with these agreements, the Company incurred extension fees due to the lender, totaling \$0.2 million, between September 28, 2018 and September 30, 2019. Additionally, during the quarter ended March 31, 2019 the Company prepaid \$20.0 million of the balance outstanding under the Term Loan, \$0.6 million of which was applied to the installment payment due on March 31, 2019 and the remainder of which was applied to the last repayment installment obligations due under

the term loan. On September 30, 2019, the Company prepaid the remaining principal balance of the term loan of \$1.5 million and agreed to permanently reduce the amount available under the Revolving Credit Facility to \$10 million which represented the outstanding balance on the date thereof. The agreements also provide that the Company cannot incur additional borrowings on the Revolving Credit Facility without the Lender's prior consent. Further, the parties agreed that the applicable interest rate on the Revolving Credit Facility and Term Loan will be LIBOR plus 4% until such time as the Company delivers certain financial information required under the credit agreement. On October 31, 2019, the Company repaid the outstanding balance on the Revolving Credit Facility.

On March 29, 2019 and September 18, 2019, the Company obtained waivers of an event of default under the credit agreement. The event of default is the result of the Company having maintained deposits on account with a financial institution in excess of the amounts permitted by the credit agreement and not having transferred certain deposit accounts to the Lender. The waiver requires the Company to remedy the event of default by March 31, 2020 by which time the Company expects to be in compliance with the underlying covenant. Although as of September 30, 2019 the Company was not in compliance with the fixed charge coverage ratio and the total leverage ratio financial covenants under the credit agreement, pursuant to the September 30, 2019 extension agreement, the lender agreed that any such failure would not constitute an event of default pending the delivery to the lender of our financial statements and related compliance certificates by no later than October 31, 2019. The Company has classified all amounts outstanding under the Revolving Credit Facility and Term Loan as current liabilities as of September 30, 2019 and June 30, 2019.

Pursuant to a Stock Purchase Agreement dated October 9, 2019 between the Company and Antara Capital Master Fund LP ("Antara"), on October 9, 2019, the Company sold to Antara 3,800,000 shares of the Company's common stock at a price of \$5.25 per share for gross proceeds of \$19,950,000. On October 9, 2019, the Company also entered into a commitment letter ("Commitment Letter") with Antara, pursuant to which Antara committed to extend to the Company a \$30.0 million senior secured term loan facility ("Term Facility"). On October 31, 2019, the Company entered into a Financing Agreement with Antara to draw \$15.0 million on the Term Facility and agreed to draw an additional \$15.0 million at any time between July 31, 2020 and April 30, 2021, subject to the terms of the Financing Agreement. The outstanding amount of the draws under the Term Facility bear interest at 9.75% per annum, payable monthly in arrears. The proceeds of the initial draw were used to repay the outstanding balance of the revolving line of credit loan due to JPMorgan Chase Bank, N.A. in the amount of \$10.1 million, including accrued interest payable, and to pay transaction expenses, and the Company intends to utilize the balance for working capital and general corporate purposes. The outstanding principal amount of the loan must be paid in full by no later than the maturity date of October 31, 2024.

The Company has the following primary sources of capital available: (1) cash and cash equivalents on hand of \$25.5 million as of September 30, 2019; (2) the cash which may be provided by operating activities in the 2020 fiscal year; (3) potential sales to third party lenders of all or a portion of our finance receivables; (4) gross cash proceeds of \$19,950,000 from the issuance of our shares to Antara as referred to above; and (5) an aggregate amount of \$30 million under the Term Facility as described above.

Management anticipates that during the remainder of the 2020 fiscal year, the Company would have to satisfy its sales tax liability estimated to be no more than \$20.0 million, inclusive of accruing no more than an additional \$4.0 million in the 2020 fiscal year. In addition, management has recently implemented efficiencies in working capital that are designed to increase our cash balances.

Therefore, the Company believes its existing cash and cash equivalents and available cash resources described above would provide sufficient capital resources to operate its anticipated business over the next 12 months.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Our exposures to market risk have not changed materially since June 30, 2019. For quantitative and qualitative disclosures about market risk, refer to Part II, Item 7A. "Quantitative and Qualitative Disclosures about Market Risk," contained in our 2019 Form 10-K.

Item 4. Controls and Procedures.

(a) Disclosure Controls and Procedures

Our management evaluated, with the participation of our interim chief executive officer and interim chief financial officer, the effectiveness as of the end of the period covered by this Form 10-Q of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). We maintain disclosure controls and procedures to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules, and that such information is accumulated and communicated to our management, including our interim chief executive officer and interim chief financial officer, to allow timely decisions regarding required disclosure. Based on this evaluation, our management, including our interim chief executive officer and interim chief financial officer, has concluded that our disclosure controls and procedures were not effective as of the end of such period as a result of the material weaknesses in our internal control over financial reporting, which are described in Item 9A. of our 2019 Form 10-K.

(b) Changes in Internal Control over Financial Reporting

Other than the remediation actions disclosed in Item 9A. of the 2019 Form 10-K, there were no changes in our internal controls over financial reporting that occurred during the quarter ended September 30, 2019 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. As discussed in Item 9A. of our 2019 Form 10-K, we have initiated a broad range of remedial procedures to address the material weaknesses in our internal control over financial reporting. These remedial procedures entailed significant changes in our internal control over financial reporting throughout the course of the fiscal year ended June 30, 2019 and were not complete as of September 30, 2019, and will continue through fiscal year 2020, with the goal to fully remediate all remaining material weaknesses by fiscal year end.

Part II - Other Information

Item 1. Legal Proceedings.

Eastern District of Pennsylvania Consolidated Shareholder Class Actions

As previously reported, various putative shareholder class actions had been filed in the United States District Court for the District of New Jersey against the Company, its chief executive officer and chief financial officer at the relevant time, its directors at the relevant time, and the investment banks who served as underwriters in the May 2018 follow-on public offering of the Company (the “Underwriters”). These complaints alleged violations of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. These various actions were consolidated by the Court into one action (the “Consolidated Action”). On September 30, 2019, the Court granted the Motion to Transfer filed by the Company and its former chief executive officer, and transferred the Consolidated Action to the United States District Court for the Eastern District of Pennsylvania, Docket No. 19-cv-04565. On October 18, 2019, the Court entered an Order approving the parties’ stipulation which provided for the filing of an amended complaint by no later than November 20, 2019, a date for the defendants to respond thereto, and a briefing schedule, if necessary.

Chester County, Pennsylvania Class Action

As previously reported, a putative shareholder class action was filed against the Company, its chief executive officer and chief financial officer at the relevant time, its directors at the relevant time, and the Underwriters, in the Court of Common Pleas, Chester County, Pennsylvania, Docket No. 2019-04821-MJ. The complaint alleged violations of the Securities Act of 1933, as amended. As also previously reported, on September 20, 2019 the Court granted the defendants’ Petition for Stay and stayed the action until the Consolidated Action reaches a final disposition. On October 18, 2019, plaintiff filed an appeal to the Pennsylvania Superior Court from the Order granting defendants’ Petition for Stay, Docket No. 3100 EDA 2019.

Item 3. Defaults Upon Senior Securities.

There were no defaults on any senior securities. On August 1, 2019, an additional \$334 thousand of dividends were 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, 2019 was \$16.0 million. The dividend accrual dates for our Preferred Stock are February 1 and August 1. The annual cumulative dividend on our Preferred Stock is \$1.50 per share.

Item 6. Exhibits.

Exhibit Number	Description
3.1	Amended and Restated Bylaws of the Company
31.1	Certifications of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certifications of 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.
101	The following financial information from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, filed with the SEC on November 12, 2019, formatted in Extensible Business Reporting Language (XBRL): (1) the Consolidated Balance Sheets as of September 30, 2019 and June 30, 2019, (2) the Consolidated Statements of Operations for the three-month periods ended September 30, 2019 and 2018, (3) the Consolidated Statements of Shareholders' Equity for the three-month periods ended September 30, 2019 and 2018, (4) the Consolidated Statements of Cash Flows for the three-month periods ended September 30, 2019 and 2018, and (5) the Notes to Consolidated Financial Statements.

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 12, 2019

/s/ Donald W. Layden, Jr.

Donald W. Layden, Jr.

Interim Chief Executive Officer

Date: November 12, 2019

/s/ Glen E. Goold

Glen E. Goold

Interim Chief Financial Officer

AMENDED AND RESTATED BYLAWS

OF

USA TECHNOLOGIES, INC.
(a Pennsylvania corporation)

ARTICLE I

Offices and Fiscal Year

Section 1.01. Registered Office.--The registered office of the corporation in the Commonwealth of Pennsylvania shall be 100 Deerfield Lane, Suite 300, Malvern, Pennsylvania 19355, until otherwise established by an amendment of the articles of incorporation (the "articles") or by the board of directors and a record of such change is filed with the Department of State in the manner provided by law.

Section 1.02. Other offices.--The corporation may also have offices at such other places within or without the Commonwealth of Pennsylvania as the board of directors may from time to time appoint or the business of the corporation may require.

Section 1.03. Fiscal Year.--The fiscal year of the corporation shall begin on the first day of July in each year.

ARTICLE II

Notice - Waivers - Meetings Generally

Section 2.01. Manner of Giving Notice.

(a) General Rule.--Whenever written notice is required to be given to any person under the provisions of the Business Corporation Law or by the articles or these bylaws, it may be given to the person either personally or by sending a copy thereof by first class or express mail, postage prepaid, or by telegram (with messenger service specified), telex or TWX (with answerback received) or courier service, charges prepaid, or by facsimile transmission to the address (or to the telex, TWX, facsimile or telephone number) of the person appearing on the books of the corporation or, in the case of directors, supplied by the director to the corporation for the purpose of notice. If the notice is sent by mail, telegraph or courier service, it shall be deemed to have been given to the person entitled thereto when

deposited in the United States mail or with a telegraph office or courier service for delivery to that person or, in the case of telex or TWX, when dispatched or, in the case of facsimile transmission when received. A notice of meeting shall specify the place, day and hour of the meeting and any other information required by any other provision of the Business Corporation Law, the articles or these bylaws.

(b) Adjourned Shareholder Meetings.--When a meeting of shareholders is adjourned, it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted at an adjourned meeting, other than by announcement at the meeting at which the adjournment is taken, unless the board fixes a new record date for the adjourned meeting in which event notice shall be given in accordance with Section 2.03.

Section 2.02. Notice of Meetings of Board of Directors.--Notice of a regular meeting of the board of directors need not be given. Notice of every special meeting of the board of directors shall be given to each director by telephone or in writing at least 24 hours (in the case of notice by telephone, telex, TWX or facsimile transmission) or 48 hours (in the case of notice by telegraph, courier service or express mail) or five days (in the case of notice by first class mail) before the time at which the meeting is to be held. Every such notice shall state the time and place of the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board need be specified in a notice of the meeting.

Section 2.03. Notice of Meetings of Shareholders

(a) General Rule.--Written notice of every meeting of the shareholders shall be given by, or at the direction of, the secretary or other authorized person to each shareholder of record entitled to vote at the meeting at least (1) ten days prior to the day named for a meeting (and, in case of a meeting called to consider a merger, consolidation, share exchange or division, to each shareholder of record not entitled to vote at the meeting) called to consider a fundamental change under 15 Pa.C.S. Chapter 19 or (2) five days prior to the day named for the meeting in any other case. If the secretary neglects or refuses to give notice of a meeting, the person or persons calling the meeting may do so. In the case of a special meeting of shareholders, the notice shall specify the general nature of the business to be transacted.

(b) Notice of Action by Shareholders on Bylaws.--In the case of a meeting of shareholders that has as one of its purposes action on the bylaws, written notice shall be given to each shareholder that the purpose, or one of the purposes, of the meeting is to consider the adoption, amendment or repeal of the bylaws. There shall be included in, or

enclosed with, the notice a copy of the proposed amendment or a summary of the changes to be affected thereby.

(c) Notice of Action by Shareholders on Fundamental Change.--In the case of a meeting of the shareholders that has as one of its purposes action with respect to any fundamental change under 15 Pa.C.S. Chapter 19, each shareholder shall be given, together with written notice of the meeting, a copy or summary of the amendment or plan to be considered at the meeting in compliance with the provisions of Chapter 19.

(d) Notice of Action by Shareholders Giving Rise to Dissenters Rights.--In the case of a meeting of the shareholders that has as one of its purposes action that would give rise to dissenters rights under the provisions of 15 Pa.C.S. Subchapter 15D, each shareholder shall be given, together with written notice of the meeting:

(1) a statement that the shareholders have a right to dissent and obtain payment of the fair value of their shares by complying with the provisions of Subchapter 15D (relating to dissenters rights); and

(2) a copy of Subchapter 15D.

Section 2.04. Waiver of Notice.

(a) Written Waiver.--Whenever any written notice is required to be given under the provisions of the Business Corporation Law, the articles or these bylaws, a waiver thereof in writing, signed by the person or persons entitled to the notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of the notice. Neither the business to be transacted at, nor the purpose of, a meeting need be specified in the waiver of notice of the meeting.

(b) Waiver by Attendance.--Attendance of a person at any meeting shall constitute a waiver of notice of the meeting except where a person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened.

Section 2.05. Modification of Proposal Contained in Notice.--Whenever the language of a proposed resolution is included in a written notice of a meeting required to be given under the provisions of the Business Corporation Law or the articles or these bylaws, the meeting considering the resolution may without further notice adopt it with such clarifying or other amendments as do not enlarge its original purpose.

Section 2.06. Exception to Requirement of Notice.

(a) General Rule.--Whenever any notice or communication is required to be given to any person under the provisions of the Business Corporation Law or by the articles or these bylaws or by the terms of any agreement or other instrument or as a condition precedent to taking any corporate action and communication with that person is then unlawful, the giving of the notice or communication to that person shall not be required.

(b) Shareholders Without Forwarding Addresses.--Notice or other communications need not be sent to any shareholder with whom the corporation has been unable to communicate for more than 24 consecutive months because communications to the shareholder are returned unclaimed or the shareholder has otherwise failed to provide the corporation with a current address. Whenever the shareholder provides the corporation with a current address, the corporation shall commence sending notices and other communications to the shareholder in the same manner as to other shareholders.

Section 2.07. Use of Conference Telephone and Similar Equipment.--Any director may participate in any meeting of the board of directors, and the board of directors may provide by resolution with respect to a specific meeting or with respect to a class of meetings that one or more persons may participate in a meeting of the shareholders of the corporation, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this section shall constitute presence in person at the meeting.

ARTICLE III Shareholders

Section 3.01. Place of Meeting.--All meetings of the shareholders of the corporation shall be held at the registered office of the corporation or such other place as may be designated by the board of directors in the notice of a meeting.

Section 3.02. Annual Meeting.

(a) The annual meeting of shareholders shall be held at such date and at such time and place as may be fixed and designated by the Board of Directors, and at said meeting the shareholders then entitled to vote shall elect directors and shall transact such other business as may properly be brought before the meeting.

(b) Nominations of persons for election to the board of directors of the corporation at an annual meeting of shareholders, or the proposal of business to be considered by the shareholders at an annual meeting of shareholders, shall only be made:

(1) pursuant to the corporation's notice of the annual meeting (or any supplement thereto) given by or at the direction of the board of directors; or

(2) if otherwise properly brought before the annual meeting by or at the direction of the board of directors; or

(3) if brought before the annual meeting by any shareholder of the corporation who was a shareholder of record at the time of giving of notice provided for in this Section 3.02, who is entitled to vote at the annual meeting, and who complies with the notice procedures set forth in this Section 3.02.

(c) For nominations or other business to be properly brought before an annual meeting by a shareholder pursuant to clause (3) of paragraph (b) of this Section 3.02, the shareholder must have given timely notice thereof in writing to the secretary of the corporation and such other business must otherwise be a proper matter for shareholder action under these Bylaws and Pennsylvania law. To be timely, a shareholder's notice must be received by the secretary at the principal executive offices of the corporation not later than the close of business on the 60th day nor earlier than the 90th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the shareholder must be so received not earlier than the 90th day prior to the annual meeting and not later than the close of business on the later of (i) the 60th day prior to the annual meeting, or (ii) the 10th day following the date on which public announcement of the date of the meeting is first made by the corporation. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above. Only such persons who are nominated by a shareholder in accordance with the procedures set forth in this Section 3.02 shall be eligible to be elected as a director at any annual meeting. Notwithstanding the foregoing, if the corporation is required under Rule 14a-8 under the Securities Exchange Act of 1934 ("Exchange Act") to include a shareholder's proposal in its proxy statement, such shareholder shall be deemed to have given timely notice for purposes of this paragraph (c) of Section 3.02 with respect to such proposal.

(d) A shareholder's notice to the secretary of the corporation relating to the nomination of directors shall set forth:

(1) as to each person whom the shareholder proposes to nominate for election or reelection as a director: (i) the name and address of such person and all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation

14A under the Exchange Act (including such person's written consent to be named as a nominee and to serve as a director if elected); (ii) all completed and signed questionnaires prepared by the corporation (including those questionnaires required of the corporation's directors and any other questionnaire the corporation determines is necessary or advisable to assess whether a nominee will satisfy any qualifications or requirements imposed by any law, rule, regulation or listing standard that may be applicable to the corporation, and the corporation's corporate governance policies and guidelines) (all of which will be promptly provided by the corporation to any requesting shareholder following a request therefor); and (iii) such other information that the corporation may deem to be necessary to permit the corporation to determine the eligibility of such person as serve as a director of the corporation, including information relevant to a determination whether such person can be considered an independent director.

(2) as to the shareholder giving notice (i) the name and address of such shareholder, as it appears on the corporation's share transfer books who intends to make the nomination ("Nominating Shareholder"); (ii) the name and address of the beneficial owner, if different than the Nominating Shareholder, of any of the shares owned of record by the Nominating Shareholder ("Beneficial Owner"); (iii) the number of shares of each class and series of shares of the corporation which are owned of record and beneficially by the Nominating Shareholder and the number which are owned beneficially by any Beneficial Owner; (iv) a description of any arrangements or understandings between the Nominating Shareholder and any Beneficial Owner and any other person or persons (naming such person or persons) pursuant to which the nomination is being made; (v) a representation that the Nominating Shareholder is at the time of giving the notice, was or will be on the record date for the meeting, and will be on the meeting date a holder of record of shares of the corporation entitled to vote at the meeting, and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (vi) a description of any agreement, arrangement or understanding (including, without limitation, any derivative or short positions, profit interests, options, hedging transactions, and borrowed or loaned shares) that has been entered into as of the date of the Nominating Shareholder's notice by, or on behalf of, such Nominating Shareholder or Beneficial Owner, the effect or intent of which is to mitigate loss, manage risk or benefit from changes in the share price of any class or series of the corporation's stock, or maintain, increase or decrease the voting power of the Nominating Shareholder or Beneficial Owner with respect to securities of the corporation; and (vii) such other information related to such Nominating Shareholder that is required to be disclosed in solicitations of proxies for election of directors,

or is otherwise required to be disclosed by such Nominating Shareholder in a proxy statement, in each case pursuant to Regulation 14A under the Exchange Act.

(e) A shareholder's notice to the secretary of the corporation relating to other business shall set forth as to each matter the shareholder proposes to bring before the annual meeting: (i) the name and address of such shareholder, as it appears on the corporation's share transfer books who intends to bring the business before the annual meeting ("Proposing Shareholder"); (ii) the name and address of the beneficial owner, if different than the Proposing Shareholder, of any of the shares owned of record by the Proposing Shareholder ("Beneficial Owner"); (iii) the number of shares of each class and series of shares of the corporation which are owned of record and beneficially by the Proposing Shareholder and the number which are owned beneficially by any Beneficial Owner; (iv) any interest which the Proposing Shareholder or a Beneficial Owner has in the business being proposed by the Proposing Shareholder; (v) a description of any arrangements or understandings between the Proposing Shareholder and any Beneficial Owner and any other person or persons (naming such person or persons) pursuant to which the proposal in the notice is being made; (vi) a description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the annual meeting, and if a specific action is to be proposed, the text of the resolution or resolutions which the Proposing Shareholder proposes that the corporation adopt; (vii) a representation that the Proposing Shareholder is at the time of giving the notice, was or will be on the record date for the annual meeting, and will be on the annual meeting date a holder of record of shares of the corporation entitled to vote at the annual meeting, and intends to appear in person or by proxy at the annual meeting to bring the business specified in the notice before the annual meeting; (viii) a description of any agreement, arrangement or understanding (including, without limitation, any derivative or short positions, profit interests, options, hedging transactions, and borrowed or loaned shares) that has been entered into as of the date of the Proposing Shareholder's notice by, or on behalf of, such Proposing Shareholder or Beneficial Owner, the effect or intent of which is to mitigate loss, manage risk or benefit from changes in the share price of any class or series of the corporation's stock, or maintain, increase or decrease the voting power of the Proposing Shareholder or Beneficial Owner with respect to securities of the corporation; and (vii) such other information related to such Proposing Shareholder that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required to be disclosed by such Proposing Shareholder in a proxy statement, in each case pursuant to Regulation 14A under the Exchange Act..

(f) The chairman of the annual meeting shall if the facts warrant, determine and declare to the meeting that the proposed business or nomination, as the case may be, was not properly brought before the meeting in compliance with the provisions of this Section 3.02, and if he shall so determine, he shall so declare to the meeting, and any such business

not properly brought before the meeting shall not be transacted, and any defective nomination shall be disregarded. Notwithstanding the foregoing provisions of this Section, a shareholder shall also comply with the applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 3.02.

Section 3.03. Special Meetings.

(a) A special meeting of the shareholders for any purpose or purposes shall be called only by the chairman of the board of directors, the chief executive officer, or the board of directors. Only such business shall be conducted at a special meeting of shareholders as shall have been brought before the meeting pursuant to the corporation's notice of meeting. Special meetings of the shareholders may also be called by the holders of at least 20% of the combined voting power of the then outstanding shares entitled to vote at the particular meeting; provided, however, that a special meeting may not be called by any shareholder or shareholders for the purpose of electing or removing any director or directors of the corporation. Upon request in writing sent by registered mail to the chairman of the board of directors or chief executive officer of the corporation by any shareholder or shareholders entitled to call a special meeting of the shareholders pursuant to this Section 3.03(a), the board of directors shall determine a place and time for such meeting, which time shall not be less than ninety (90) nor more than one hundred and twenty (120) days after the receipt of such request, and a record date for the determination of shareholders entitled to vote at such meeting in the manner set forth in Section 3.12 hereof. Following such receipt, it shall be the duty of the secretary of the corporation to cause notice to be given to the shareholders entitled to vote at such meeting, in the manner set forth in Section 2.03 hereof, that a meeting will be held at the time and place so determined. Notwithstanding anything to the contrary in these Bylaws, a special meeting of the shareholders may not be called or otherwise requested by any shareholder or shareholders before the first annual meeting of shareholders that is held after November 8, 2019.

(b) Nominations of persons for election to the board of directors may be made at a special meeting of shareholders at which directors are to be elected pursuant to the corporation's notice of meeting (1) by or at the direction of the board of directors, or (2) provided that the board of directors has determined that directors shall be elected at such meeting, by any shareholder of the corporation who is a shareholder of record at the time of giving of notice provided for in this Section 3.03, who shall be entitled to vote at the meeting, and who complies with the notice procedures set forth in this Section 3.03(b). In the event the corporation calls a special meeting of shareholders for the purpose of electing one or more directors to the board, any such shareholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the corporation's notice of meeting, if the shareholder's notice in the form required by paragraph (d) of Section 3.02

of these Bylaws shall be received by the secretary at the principal executive offices of the corporation not earlier than the 90th day prior to such special meeting and not later than the close of business on the later of (i) the 60th day prior to such special meeting, or (ii) the 10th day following the date on which public announcement is first made of the date of the special meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above. Only such persons who are nominated by a shareholder in accordance with the procedures set forth in this Section 3.03 shall be eligible to be elected as a director at any special meeting.

(c) The chairman of the special meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in this Section 3.03 and, if any proposed nomination is not in compliance with this Section 3.03, to declare that such defective nomination shall be disregarded. Notwithstanding the foregoing provisions of this Section, a shareholder shall also comply with the applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Sections 3.03.

Section 3.04. Quorum and Adjournment.

(a) General Rule.--A meeting of shareholders of the corporation duly called shall not be organized for the transaction of business unless a quorum is present. The presence of shareholders entitled to cast at least a majority of the votes that all shareholders are entitled to cast on a particular matter to be acted upon at the meeting shall constitute a quorum for the purposes of consideration and action on the matter. Shares of the corporation owned, directly or indirectly, by it and controlled, directly or indirectly, by the board of directors of this corporation, as such, shall not be counted in determining the total number of outstanding shares for quorum purposes at any given time.

(b) Withdrawal of a Quorum.--The shareholders present at a duly organized meeting can continue to do business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

(c) Adjournments Generally.--Any regular or special meeting of the shareholders, including one at which directors are to be elected and one which cannot be organized because a quorum has not attended, may be adjourned for such period and to such place as the shareholders present and entitled to vote shall direct, except that any meeting at which directors are to be elected shall be adjourned only from day to day or for such longer periods not exceeding 15 days each as the shareholders present and entitled to vote shall direct.

(d) Elective Directors at Adjourned Meeting.--Those shareholders entitled to vote who attend a meeting called for the election of directors that has been previously adjourned for lack of a quorum, although less than a quorum as fixed in this section, shall nevertheless constitute a quorum for the purpose of electing directors.

(e) Other Action in Absence of Quorum.--Those shareholders entitled to vote who attend a meeting of shareholders that has been previously adjourned for one or more periods aggregating at least 15 days because of an absence of a quorum, although less than a quorum as fixed in this section, shall nevertheless constitute a quorum for the purpose of acting upon any matter set forth in the notice of the meeting if the notice states that those shareholders who attend the adjourned meeting shall nevertheless constitute a quorum for the purpose of acting upon the matter.

Section 3.05. Action by Shareholders.--Except as otherwise provided in the Business Corporation Law or the articles or these bylaws, whenever any corporate action is to be taken by vote of the shareholders of the corporation, it shall be authorized upon receiving the affirmative vote of a majority of the votes cast by all shareholders entitled to vote thereon and, if any shareholders are entitled to vote thereon as a class, upon receiving the affirmative vote of a majority of the votes cast by the shareholders entitled to vote as a class.

Section 3.06. Organization.--At every meeting of the shareholders, the chairman of the board, if there be one, or, in the case of vacancy in office or absence of the chairman of the board, one of the following persons present in the order stated: the vice chairman of the board, if there be one, the chief executive officer, the president, the vice presidents in their order of rank and seniority, or a person chosen by vote of the shareholders present, shall act as chairman of the meeting. The secretary or, in the absence of the secretary, an assistant secretary, or, in the absence of both the secretary and assistant secretaries, a person appointed by the chairman of the meeting, shall act as secretary of the meeting.

Section 3.07. Voting Rights of Shareholders.--Unless otherwise provided in the articles, every shareholder of the corporation shall be entitled to one vote for every share standing in the name of the shareholder on the books of the corporation.

Section 3.08. Voting and Other Action by Proxy.

(a) General Rule.--

(1) Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person to act for the shareholder by proxy.

(2) The presence of, or vote or other action at a meeting of shareholders, or the expression of consent or dissent to corporate action in writing, by a proxy of a shareholder shall constitute the presence of, or vote or action by, or written consent or dissent of, the shareholder.

(3) Where two or more proxies of a shareholder are present, the corporation shall, unless otherwise expressly provided in the proxy, accept as the vote of all shares represented thereby the vote cast by a majority of them and, if a majority of the proxies cannot agree whether the shares represented shall be voted or upon the manner of voting the shares, the voting of the shares shall be divided equally among those persons.

(4) Any shareholder directly or indirectly soliciting proxies from other shareholders must use a proxy card color other than white, which shall be reserved for the exclusive use by the board of directors of the corporation.

(b) Execution and Filing.--Every proxy shall be executed in writing by the shareholder or by the duly authorized attorney-in-fact of the shareholder and filed with the secretary of the corporation. A telegram, telex, cablegram, datagram or similar transmission from a shareholder or attorney-in-fact, or a photographic, facsimile or similar reproduction of a writing executed by a shareholder or attorney-in-fact:

(1) may be treated as properly executed for purposes of this subsection; and

(2) shall be so treated if it sets forth a confidential and unique identification number or other mark furnished by the corporation to the shareholder for the purposes of a particular meeting or transaction.

(c) Revocation.--A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until written notice thereof has been given to the secretary of the corporation. An unrevoked proxy shall not be valid after three years from the date of its execution unless a longer time is expressly provided therein. A proxy shall not be revoked by the death or incapacity of the maker unless, before the vote is counted or the authority is exercised, written notice of the death or incapacity is given to the secretary of the corporation.

(d) Expenses.--The corporation shall pay the reasonable expenses of solicitation of votes, proxies or consents of shareholders by or on behalf of the board of directors or its nominees for election to the board, including solicitation by professional proxy solicitors and otherwise.

Section 3.09. Voting by Fiduciaries and Pledges.--Shares of the corporation standing in the name of a trustee or other fiduciary and shares held by an assignee for the benefit of creditors or by a receiver may be voted by the trustee, fiduciary, assignee or receiver. A shareholder whose shares are pledged shall be entitled to vote the shares until the shares have been transferred into the name of the pledgee, or a nominee of the pledgee, but nothing in this section shall affect the validity of a proxy given to a pledgee or nominee.

Section 3.10. Voting by Joint Holders of Shares.

(a) General Rule.--Where shares of the corporation are held jointly or as tenants in common by two or more persons, as fiduciaries or otherwise:

(1) if only one or more of such persons is present in person or by proxy, all of the shares standing in the names of such persons shall be deemed to be represented for the purpose of determining a quorum and the corporation shall accept as the vote of all the shares the vote cast by a joint owner or a majority of them; and

(2) if the persons are equally divided upon whether the shares held by them shall be voted or upon the manner of voting the shares, the voting of the shares shall be divided equally among the persons without prejudice to the rights of the joint owners or the beneficial owners thereof among themselves.

(b) Exception.--If there has been filed with the secretary of the corporation a copy, certified by an attorney at law to be correct, of the relevant portions of the agreement, under which the shares are held or the instrument by which the trust or estate was created or the order of court appointing them or of an order of court directing the voting of the shares, the persons specified as having such voting power in the document latest in date of operative effect so filed, and only those persons, shall be entitled to vote the shares but only in accordance therewith.

Section 3.11. Voting by Corporations.

(a) Voting by Corporate Shareholders.--Any corporation that is a shareholder of this corporation may vote at meetings of shareholders of this corporation by any of its officers or agents, or by proxy appointed by any officer or agent, unless some other person, by resolution of the board of directors of the other corporation or a provision of its articles or bylaws, a copy of which resolution or provision certified to be correct by one of its officers has been filed with the secretary of this corporation, is appointed its general or special proxy in which case that person shall be entitled to vote the shares.

(b) Controlled Shares--Shares of this corporation owned, directly or indirectly, by it and controlled, directly or indirectly, by the board of directors of this corporation, as such, shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares for voting purposes at any given time.

Section 3.12. Determination of Shareholders of Record.

(a) Fixing Record Date--The board of directors may fix a time prior to the date of any meeting of shareholders as a record date for the determination of the shareholders entitled to notice of, or to vote at, the meeting, which time, except in the case of an adjourned meeting, shall be not more than 90 days prior to the date of the meeting of shareholders. Only shareholders of record on the date fixed shall be so entitled notwithstanding any transfer of shares on the books of the corporation after any record date fixed as provided in this subsection. The board of directors may similarly fix a record date for the determination of shareholders of record for any other purpose. When a determination of shareholders of record has been made as provided in this section for purposes of a meeting, the determination shall apply to any adjournment thereof unless the board fixes a new record date for the adjourned meeting.

(b) Determination When a Record Date is Not Fixed--If a record date is not fixed:

(1) The record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day immediately preceding the day on which the meeting is held.

(2) The record date for determining shareholders entitled to express consent or dissent to corporate action in writing without a meeting, when prior action by the board of directors is not necessary, to call a special meeting or to propose an amendment of the articles shall be the close of business on the day on which the first written consent or dissent, request for a special meeting or petition proposing an amendment of the articles is filed with the secretary of the corporation.

(3) The record date for determining shareholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

(c) Certification by Nominee--The board of directors may adopt a procedure whereby a shareholder of the corporation may certify in writing to the corporation that all or a portion of the shares registered in the name of the shareholder are held for the account of a specified person or persons. Upon receipt by the corporation of a certification complying

with the procedure, the persons specified in the certification shall be deemed, for the purposes set forth in the certification, to be the holders of record of the number of shares specified in place of the shareholder making the certification.

Section 3.13. Voting Lists.

(a) General Rule.--The officer or agent having charge of the transfer books for shares of the corporation shall make a complete list of the shareholders entitled to vote at any meeting of shareholders, arranged in alphabetical order, with the address of and the number of shares held by each. The list shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting for the purposes thereof.

(b) Effect of List.--Failure to comply with the requirements of this section shall not affect the validity of any action taken at a meeting prior to a demand at the meeting by any shareholder entitled to vote thereat to examine the list. The original share register or transfer book, or a duplicate thereof kept in the Commonwealth of Pennsylvania, shall be prima facie evidence as to who are the shareholders entitled to examine the list or share register or transfer book or to vote at any meeting of shareholders.

Section 3.14. Judges of Election.

(a) Appointment.--In advance of any meeting of shareholders of the corporation, the board of directors may appoint judges of election, who need not be shareholders, to act at the meeting or any adjournment thereof. If judges of election are not so appointed, the presiding officer of the meeting may, and on the request of any shareholder shall, appoint judges of election at the meeting. The number of judges shall be one or three. A person who is a candidate for an office to be filled at the meeting shall not act as a judge.

(b) Vacancies.--In case any person appointed as a judge fails to appear or fails or refuses to act, the vacancy may be filled by appointment made by the board of directors in advance of the convening of the meeting or at the meeting by the presiding officer thereof.

(c) Duties.--The judges of election shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity and effect of proxies, receive votes or ballots, hear and determine all challenges and questions in any way arising in connection with nominations by shareholders or the right to vote, count and tabulate all votes, determine the result and do such acts as may be proper to conduct the election or vote with fairness to all shareholders. The judges of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three judges of

election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all.

(d) Report.--On request of the presiding officer of the meeting or of any shareholder, the judges shall make a report in writing of any challenge or question or matter determined by them, and execute a certificate of any fact found by them. Any report or certificate made by them shall be prima facie evidence of the facts stated therein.

Section 3.15. Consent of Shareholders in Lieu of Meeting.

(a) Unanimous Written Consent.--Any action required or permitted to be taken at a meeting of the shareholders or of a class of shareholders may be taken without a meeting if, prior or subsequent to the action, a consent or consents thereto by all of the shareholders who would be entitled to vote at a meeting for such purpose shall be filed with the secretary of the corporation.

(b) Partial Written Consent.--Any action required or permitted to be taken at a meeting of the shareholders or of a class of shareholders may be taken without a meeting upon the written consent of shareholders who would have been entitled to cast the minimum number of votes that would be necessary to authorize the action at a meeting at which all shareholders entitled to vote thereon were present and voting. The consents shall be filed with the secretary of the corporation. The action shall not become effective until after at least ten days' written notice of the action has been given to each shareholder entitled to vote thereon who has not consented thereto.

Section 3.16. Minors as Securityholders.--The corporation may treat a minor who holds shares or obligations of the corporation as having capacity to receive and to empower others to receive dividends, interest, principal and other payments or distributions, to vote or express consent or dissent and to make elections and exercise rights relating to such shares or obligations unless, in the case of payments or distributions on shares, the corporate officer responsible for maintaining the list of shareholders or the transfer agent of the corporation or, in the case of payments or distributions on obligations, the treasurer or paying officer or agent has received written notice that the holder is a minor.

ARTICLE IV

Board of Directors

Section 4.01. Powers; Personal Liability.

(a) General Rule.--Unless otherwise provided by statute, all powers vested by law in the corporation shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the board of directors.

(b) Fundamental Transactions.--Where any provision of 15 Pa.C.S. Ch. 19 requires that an amendment of the articles or a plan be proposed by action of the board of directors, that requirement shall be construed to authorize and be satisfied by the written agreement of all of the shareholders of a business corporation.

(c) Personal Liability of Directors.--

(1) A director shall not be personally liable, as such, for monetary damages (including, without limitation, any judgment, amount paid in settlement, penalty, punitive damages or expense of any nature (including, without limitation, attorneys fees and disbursements)) for any action taken, or any failure to take any action, unless:

(i) the director has breached or failed to perform the duties of his or her office under subchapter 17B of the Business Corporation Law (or any successor provision); and

(ii) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

(2) The provisions of paragraph (1) shall not apply to the responsibility or liability of a director pursuant to any criminal statute, or the liability of a director for the payment of taxes pursuant to local, state or federal law.

(d) Notation of Dissent.--A director who is present at a meeting of the board of directors, or of a committee of the board, at which action on any corporate matter is taken on which the director is generally competent to act, shall be presumed to have assented to the action taken unless his or her dissent is entered in the minutes of the meeting or unless the director files a written dissent to the action with the secretary of the meeting before the adjournment thereof or transmits the dissent in writing to the secretary of the corporation immediately after the adjournment of the meeting. The right to dissent shall not apply to a director who voted in favor of the action. Nothing in this section shall bar a director from asserting that minutes of the meeting incorrectly omitted his or her dissent if, promptly upon receipt of a copy of such minutes, the director notifies the secretary, in writing, of the asserted omission or inaccuracy.

Section 4.02. Qualifications and Selection of Directors.

(a) Qualifications.--Each director of the corporation shall be a natural person of full age who need not be a resident of the Commonwealth of Pennsylvania or a shareholder of the corporation.

(b) Power to Select Directors.--Except as otherwise provided in these bylaws, directors of the corporation shall be elected by the shareholders.

(c) Nominations of Directors. Nominees for election to the board of directors at any special or annual meeting of the shareholders shall be selected by the board of directors or a committee of the board of directors to which the board of directors has delegated the authority to make such selections pursuant to Section 4.11 of these Bylaws. Nominees for election to the board of directors at any special or annual meeting of the shareholders may also be selected by shareholders, provided that such nominations are made in accordance with, and accompanied by the information required by, Section 3.02 (relating to annual meetings of shareholders) or Section 3.03 (relating to special meetings of shareholders). If the board of directors is classified with respect to the terms of directors, and if, due to a vacancy or vacancies, or otherwise, directors of more than one class are to be elected, each class of directors to be elected at the meeting shall be nominated and elected separately. Any shareholder may nominate as many persons for the office of director as there are positions to be filled.

(d) Election of Directors.--In elections for directors, voting need not be by ballot, unless required by vote of the shareholders before the voting for the election of directors begins. The candidates receiving the highest number of votes from each class or group of classes, if any, entitled to elect directors separately up to the number of directors to be elected by the class or group of classes shall be elected. If at any meeting of shareholders, directors of more than one class are to be elected, each class of directors shall be elected in a separate election.

Section 4.03. Number and Term of Office.

(a) Number.--The board of directors shall consist of not less than five members, nor more than eleven members, with the exact number within said limits to be fixed from time to time solely by resolution of the board of directors.

(b) Term of Office.

The term of office of each director shall be one year. Each director shall hold office until the expiration of the term for which he or she was selected and until a successor has been selected and qualified or until his or her earlier death, resignation or removal. A decrease

in the number of directors shall not have the effect of shortening the term of any incumbent director.

(c) Resignation.--Any director may resign at any time upon written notice to the corporation. The resignation shall be effective upon receipt thereof by the corporation or at such subsequent time as shall be specified in the notice of resignation.

(d) Chairman.--The board of directors shall annually elect from among the members of the board a chairman of the board who may, but shall not be required to, qualify as independent under the applicable listing standards of The Nasdaq Stock Market LLC or such other securities market on which the Company's securities are listed. Any vacancy in the position of the chairman shall be filled at such time and in such manner as the board of directors shall determine. The chairman of the board may also serve as the chief executive officer and/or as another officer of the Company.

Section 4.04. Vacancies.

(a) General Rule.--Vacancies in the board of directors, including vacancies resulting from an increase in the number of directors, may be filled by a majority vote of the remaining members of the board though less than a quorum, or by a sole remaining director, and each person so selected shall be a director to serve until the next selection of the class for which such director has been chosen, and until a successor has been selected and qualified or until his or her earlier death, resignation or removal.

(b) Action by Resigned Directors.--When one or more directors resign from the board effective at a future date, the directors then in office, including those who have so resigned, shall have power by the applicable vote to fill the vacancies, the vote thereon to take effect when the resignations become effective.

Section 4.05. Removal of Directors.

(a) Removal by the Shareholders.--The entire board of directors, or any class of the board, or any individual director may be removed from office by vote of the shareholders entitled to vote thereon without assigning any cause. In case the board or a class of the board or any one or more directors are so removed, new directors may be elected at the same meeting.

(b) Removal by the Board.--The board of directors may declare vacant the office of a director who has been judicially declared of unsound mind or who has been convicted of an offense punishable by imprisonment for a term of more than one year or if, within 60

days after notice of his or her selection, the director does not accept the office either in writing or by attending a meeting of the board of directors.

Section 4.06. Place of Meeting.--Meetings of the board of directors may be held at such place within or without the Commonwealth of Pennsylvania as the board of directors may from time to time appoint or as may be designated in the notice of the meeting.

Section 4.07. Organization of Meetings.--At every meeting of the board of directors, the chairman of the board, if there be one, or, in the case of a vacancy in the office or absence of the Chairman of the board, one of the following officers present in the order stated: the vice chairman of the board, if there be one, the chief executive officer, the president, the vice presidents in their order of rank and seniority, or a person chosen by a majority of the directors present, shall act as chairman of the meeting. The secretary or, in the absence of the secretary, an assistant secretary, or, in the absence of the secretary and the assistant secretaries, any person appointed by the chairman of the meeting, shall act as secretary of the meeting.

Section 4.08. Regular Meetings.--Regular meetings of the board of directors shall be held at such time and place as shall be designated from time to time by resolution of the board of directors.

Section 4.09. Special Meetings.--Special meetings of the board of directors shall be held whenever called by the chairman or by two or more of the directors.

Section 4.10. Quorum of and Action by Directors.

(a) General Rule.--A majority of the directors in office of the corporation shall be necessary to constitute a quorum for the transaction of business and the acts of a majority of the directors present and voting at a meeting at which a quorum is present shall be the acts of the board of directors.

(b) Action by Written Consent.--Any action required or permitted to be taken at a meeting of the directors may be taken without a meeting if, prior or subsequent to the action, a consent or consents thereto by all of the directors in office is filed with the secretary of the corporation.

Section 4.11. Executive and other Committees.

(a) Establishment and Powers.--The board of directors may, by resolution adopted by a majority of the directors in office, establish one or more committees to consist of one or more directors of the corporation. Any committee, to the extent provided in the resolution

of the board of directors, shall have and may exercise all of the powers and authority of the board of directors except that a committee shall not have any power or authority as to the following:

(1) The submission to shareholders of any action requiring approval of shareholders under the Business Corporation Law.

(2) The creation or filling of vacancies in the board of directors.

(3) The adoption, amendment or repeal of these bylaws.

(4) The amendment or repeal of any resolution of the board that by its terms is amendable or repealable only by the board.

(5) Action on matters committed by a resolution of the board of directors to another committee of the board.

(b) Alternate Committee Members.--The board may designate one or more directors as alternate members of any committee who may replace any absent or disqualified member at any meeting of the committee or for the purposes of any written action by the committee. In the absence or disqualification of a member and alternate member or members of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another director to act at the meeting in the place of the absent or disqualified member.

(c) Term.--Each committee of the board shall serve at the pleasure of the board.

(d) Committee Procedures.--The term "board of directors" or "board," when used in any provision of these bylaws relating to the organization or procedures of or the manner of taking action by the board of directors, shall be construed to include and refer to any executive or other committee of the board.

Section 4.12. Compensation.--The board of directors shall have the authority to fix the compensation of directors for their services as directors and a director may be a salaried officer of the corporation.

ARTICLE V

Officers

Section 5.01. Officers Generally.

(a) Number, Qualifications and Designation.--The officers of the corporation shall be a chief executive officer, president, one or more vice presidents, a secretary, a treasurer, and such other officers as may be elected in accordance with the provisions of Section 5.03. Officers may but need not be directors or shareholders of the corporation. The chief executive officer, president and secretary shall be natural persons of full age. The treasurer may be a corporation, but if a natural person shall be of full age. Any number of offices may be held by the same person.

(b) Bonding.--The corporation may secure the fidelity of any or all of its officers by bond or otherwise.

(c) Standard of Care.--In lieu of the standards of conduct otherwise provided by law, officers of the corporation shall be subject to the same standards of conduct, including standards of care and loyalty and rights of justifiable reliance, as shall at the time be applicable to directors of the corporation. An officer of the corporation shall not be personally liable, as such, to the corporation or its shareholders for monetary damages (including, without limitation, any judgment, amount paid in settlement, penalty, punitive damages or expense of any nature (including, without limitation, attorneys' fees and disbursements)) for any action taken, or any failure to take any action, unless the officer has breached or failed to perform the duties of his or her office under the articles of incorporation, these bylaws, or the applicable provisions of law and the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness. The provisions of this subsection shall not apply to the responsibility or liability of an officer pursuant to any criminal statute or for the payment of taxes pursuant to local, state or federal law.

Section 5.02. Election, Term of office and Resignations.

(a) Election and Term of office.--The officers of the corporation, except those elected by delegated authority pursuant to section 5.03, shall be elected annually by the board of directors, and each such officer shall hold office for a term of one year and until a successor has been selected and qualified or until his or her earlier death, resignation or removal.

(b) Resignations.--Any officer may resign at any time upon written notice to the corporation. The resignation shall be effective upon receipt thereof by the corporation or at such subsequent time as may be specified in the notice of resignation

Section 5.03. Subordinate Officers, Committees and Agents.--The board of directors may from time to time elect such other officers and appoint such committees, employees or other agents as the business of the corporation may require, including one or more assistant secretaries, and one or more assistant treasurers, each of whom shall hold

office for such period, have such authority, and perform such duties as are provided in these bylaws, or as the board of directors may from time to time determine. The board of directors may delegate to any officer or committee the power to elect subordinate officers and to retain or appoint employees or other agents, or committees thereof, and to prescribe the authority and duties of such subordinate officers, committees, employees or other agents.

Section 5.04. Removal of Officers and Agents.--Any officer or agent of the corporation may be removed by the board of directors with or without cause. The removal shall be without prejudice to the contract rights, if any, of any person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

Section 5.05. Vacancies.--A vacancy in any office because of death, resignation, removal, disqualification, or any other cause, may be filled by the board of directors or by the officer or committee to which the power to fill such office has been delegated pursuant to section 5.03, as the case may be, and if the office is one for which these bylaws prescribe a term, shall be filled for the unexpired portion of the term.

Section 5.06. Authority.--All officers of the corporation, as between themselves and the corporation, shall have such authority and perform such duties in the management of the corporation as may be provided by or pursuant to resolutions or orders of the board of directors or, in the absence of controlling provisions in the resolutions or orders of the board of directors, as may be determined by or pursuant to these bylaws.

Section 5.07. The Chief Executive Officer.--The chief executive officer shall have general supervision over the affairs of the corporation, shall perform such other duties as may from time to time be requested by the board of directors, and, subject to the policies and directives of the board of directors, shall supervise and direct all officers and employees of the corporation, but may delegate in his discretion any of his powers as chief executive officer to any officer or such other executives as he may designate.

Section 5.08. The President.--The president shall be the chief operating officer of the corporation and shall perform such other duties as may, from time to time be requested by the board of directors, the chairman of the board, or the chief executive officer. As chief operating officer, he shall have general supervision over the operations of the corporation, subject however, to the supervision and control of the board of directors, and the chief executive officer, and shall supervise and direct all operating officers and employees of the corporation, but may delegate in his discretion any of his powers as chief operating officer to any officer or such other executives as he may designate.

Section 5.09. Execution of Documents. Either the chief executive officer or the president shall sign, execute, and acknowledge, in the name of the corporation, deeds, mortgages, bonds, contracts or other instruments, except in cases where required or permitted by law to be otherwise signed and executed and in cases where the signing and execution thereof shall be expressly delegated by the board of directors, or by these bylaws, to some other officer or agent of the corporation.

Section 5.10. The Vice President.--The vice presidents shall perform the duties of the president in the absence of the president and such other duties as may from time to time be assigned to them by the board of directors, the chief executive officer or the president.

Section 5.11. The Secretary.--The secretary or an assistant secretary shall attend all meetings of the shareholders and of the board of directors and all committees thereof and shall record all the votes of the shareholders and of the directors and the minutes of the meetings of the shareholders and of the board of directors and of committees of the board in a book or books to be kept for that purpose; shall see that notices are given and records and reports properly kept and filed by the corporation as required by law; shall be the custodian of the seal of the corporation and see that it is affixed to all documents to be executed on behalf of the corporation under its seal; and, in general, shall perform all duties incident to the office of secretary, and such other duties as may from time to time be assigned by the board of directors, the chief executive officer or the president.

Section 5.12. The Treasurer.--The treasurer or an assistant treasurer shall have or provide for the custody of the funds or other property of the corporation; shall collect and receive or provide for the collection and receipt of moneys earned by or in any manner due to or received by the corporation; shall deposit all funds in his or her custody as treasurer in such banks or other places of deposit as the board of directors may from time to time designate; shall, whenever so required by the board of directors, render an account showing all transactions as treasurer, and the financial condition of the corporation; and, in general, shall discharge such other duties as may from time to time be assigned by the board of directors, the chief executive officer or the president.

Section 5.13. Salaries.--The salaries of the officers elected by the board of directors shall be fixed from time to time by the board of directors or by such officer as may be designated by resolution of the board. The salaries or other compensation of any other officers, employees and other agents shall be fixed from time to time by the officer or committee to which the power to elect such officers or to retain or appoint such employees or other agents has been delegated pursuant to Section 5.03. No officer shall be prevented from receiving such salary or other compensation by reason of the fact that the officer is also a director of the corporation.

Section 5.14. Authority.--All officers of the corporation, as between themselves and the corporation, shall have such authority and perform such duties in the management of the corporation as may be provided by or pursuant to resolutions or orders of the board of directors or, in the absence of controlling provisions in the resolutions or orders of the board of directors, as may be determined by or pursuant to these bylaws.

ARTICLE VI

Certificates of Stock, Transfer, Etc.

Section 6.01. Share Certificates.

(a) Form of Certificates. Shares of the corporation's capital stock may be represented by certificates or may be uncertificated, to the extent determined by the board of directors. To the extent they are issued, certificates of stock shall be issued in numerical order, registered in the share register or transfer books of the corporation as they are issued, and shall be signed by the chief executive officer, the President or a Vice President, and the Secretary or the Treasurer, or in such other manner as the corporation may determine, and may be sealed with the seal of the corporation or a facsimile thereof. The signatures of such officers may be facsimiles if the certificate is manually signed on behalf of a transfer agent, or registered by a registrar, other than the corporation it self or an employee of the corporation. If an officer who has signed or whose facsimile signature has been placed upon such certificate ceases to be an officer before the certificate is issued, it may be issued by the corporation with the same effect as if the person were an officer on the date of issue. Each certificate of stock shall state: (i) that the corporation is incorporated under the laws of the Commonwealth of Pennsylvania; (ii) the name of the person to whom issued; (iii) the number and class of shares and the designation of the series, if any, which such certificate represents; and (iv) the par value of each share represented by such certificate, or a statement that such shares are without par value. If the corporation is authorized to issue shares of more than one class or series, certificates for shares of the corporation, if any, shall set forth upon the face or back of the certificate (or shall state on the face or back of the certificate that the corporation will furnish to any shareholder upon request and without charge), a full or summary statement of the designations, voting rights, preferences, limitations and special rights of the shares of each class or series authorized to be issued so far as they have been fixed and determined and the authority of the board of directors to fix and determine the designations, voting rights, preferences, limitations and special rights of the classes and series of shares of the corporation.

(b) Share Register. The share register or transfer books and blank share certificates, if any, shall be kept by the secretary or by any transfer agent or registrar designated by the board of directors for that purpose.

Section 6.02. Transfer. Transfers of shares shall be made on the share register or transfer books of the corporation. Stock certificates, if any, shall be surrendered and endorsed by the person named in the certificate or by an attorney lawfully constituted in writing. No transfer shall be made inconsistent with the provisions of the Uniform Commercial Code, 13 Pa.C.S. § 8101 et seq., and its amendments and supplements.

Section 6.03. Record Holder of Shares. The corporation shall be entitled to treat the person in whose name any share or shares of the corporation stand on the books of the corporation as the absolute owner thereof, and shall not be bound to recognize any equitable or other claim to, or interest in, such share or shares on the part of any other person.

Section 6.04. Lost, Destroyed or Mutilated Certificates. The holder of any certificate of shares of the corporation shall immediately notify the corporation of any loss, destruction or mutilation of the certificate therefore, and the board of directors may, in its discretion, direct that the shares shall be uncertificated or cause a new certificate or certificates to be issued to such holder, in case of mutilation of the certificate, upon surrender of the mutilated certificate or, in case of loss or destruction of the certificate, upon satisfactory proof of such loss or destruction and, if the board of directors shall so determine, the deposit of a bond in such form and in such sum, and with such surety or sureties, as it may direct.

ARTICLE VII

Indemnification of Directors, Officers and Other Authorized Representatives

Section 7.01. Scope of Indemnification.

(a) General Rule.--The corporation shall indemnify an indemnified representative against any liability incurred in connection with any proceeding in which the indemnified representative may be involved as a party or otherwise by reason of the fact that such person is or was serving in an indemnified capacity, including, without limitation, liabilities resulting from any actual or alleged breach or neglect of duty, error, misstatement or misleading statement, negligence, gross negligence or act giving rise to strict or products liability, except:

- (1) where such indemnification is expressly prohibited by applicable law:

(2) where the conduct of the indemnified representative has been finally determined pursuant to Section 7.06 or otherwise:

(i) to constitute willful misconduct or recklessness within the meaning of 15 Pa.C.S. § 1746(b) or any superseding provision of law sufficient in the circumstances to bar indemnification against liabilities arising from the conduct; or

(ii) to be based upon or attributable to the receipt by the indemnified representative from the corporation of a personal benefit to which the indemnified representative is not legally entitled; or

(3) to the extent such indemnification has been finally determined in a final adjudication pursuant to Section 7.06 to be otherwise unlawful.

(b) Partial Payment.--If an indemnified representative is entitled to indemnification in respect of a portion, but not all, of any liabilities to which such person may be subject, the corporation shall indemnify such indemnified representative to the maximum extent for such portion of the liabilities.

(c) Presumption.--The termination of a proceeding by judgment, order, settlement or conviction or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that the indemnified representative is not entitled to indemnification.

(d) Definitions.--For purposes of this Article:

(1) “indemnified capacity” means any and all past, present and future service by an indemnified representative in one or more capacities as a director, officer, employee or agent of the corporation, or, at the request of the corporation, as a director, officer, employee, agent, fiduciary or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other entity or enterprise;

(2) “indemnified representative” means any and all directors and officers of the corporation and any other person designated as an indemnified representative by the board of directors of the corporation (which may, but need not, include any person serving at the request of the corporation, as a director, officer, employee, agent, fiduciary or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other entity or enterprise);

(3) “liability” means any damage, judgment, amount paid in settlement, fine, penalty, punitive damages, excise tax assessed with respect to an employee benefit

plan, or cost or expense of any nature (including, without limitation, attorneys' fees and disbursements); and

(4) "proceeding" means any threatened, pending or completed action, suit, appeal or other proceeding of any nature, whether civil, criminal, administrative or investigative, whether formal or informal, and whether brought by or in the right of the corporation, a class of its security holders or otherwise.

Section 7.02. Proceedings Initiated by Indemnified Representatives.--Notwithstanding any other provision of this Article, the corporation shall not indemnify under this Article an indemnified representative for any liability incurred in a proceeding initiated (which shall not be deemed to include counterclaims or affirmative defenses) or participated in as an intervenor or amicus curiae by the person seeking indemnification unless such initiation of or participation in the proceeding is authorized, either before or after its commencement, by the affirmative vote of a majority of the directors in office. This section does not apply to reimbursement of expenses incurred in successfully prosecuting or defending arbitration under Section 7.06 or otherwise successfully prosecuting or defending the rights of an indemnified representative granted by or pursuant to this Article.

Section 7.03. Advancing Expenses.--The corporation shall pay the expenses (including attorneys' fees and disbursements) incurred in good faith by an indemnified representative in advance of the final disposition of a proceeding described in Section 7.01 or the initiation of or participation in which is authorized pursuant to section 7.02 upon receipt of an undertaking by or on behalf of the indemnified representative to repay the amount if it is ultimately determined pursuant to Section 7.06 that such person is not entitled to be indemnified by the corporation pursuant to this Article. The financial ability of an indemnified representative to repay an advance shall not be a prerequisite to the making of such advance.

Section 7.04. Securing of Indemnification Obligations.--To further effect, satisfy or secure the indemnification obligations provided herein or otherwise, the corporation may maintain insurance, obtain a letter of credit, act as self-insurer, create a reserve, trust, escrow, cash collateral or other fund or account, enter into indemnification agreements, pledge or grant a security interest in any assets or properties of the corporation, or use any other mechanism or arrangement whatsoever in such amounts, at such costs, and upon such other terms and conditions as the board of directors shall deem appropriate. Absent fraud, the determination of the board of directors with respect to such amounts, costs, terms and conditions shall be conclusive against all security holders, officers and directors and shall not be subject to voidability.

Section 7.05. Payment of Indemnification.--An indemnified representative shall be entitled to indemnification within 30 days after a written request for indemnification has been delivered to the secretary of the corporation.

Section 7.06. Arbitration.

(a) General Rule.--Any dispute related to the right to indemnification, contribution or advancement of expenses as provided under this Article, except with respect to indemnification for liabilities arising under the Securities Act of 1933 that the corporation has undertaken to submit to a court for adjudication, shall be decided only by arbitration in the metropolitan area in which the principal executive offices of the corporation are located at the time, in accordance with the commercial arbitration rules then in effect of the American Arbitration Association, before a panel of three arbitrators, one of whom shall be selected by the corporation, the second of whom shall be selected by the indemnified representative and the third of whom shall be selected by the other two arbitrators. In the absence of the American Arbitration Association, or if for any reason arbitration under the arbitration rules of the American Arbitration Association cannot be initiated, and if one of the parties fails or refuses to select an arbitrator or the arbitrators selected by the corporation and the indemnified representative cannot agree on the selection of the third arbitrator within 30 days after such time as the corporation and the indemnified representative have each been notified of the selection of the other's arbitrator, the necessary arbitrator or arbitrators shall be selected by the presiding judge of the court of general jurisdiction in such metropolitan area.

(b) Burden of Proof.--The party or parties challenging the right of an indemnified representative to the benefits of this Article shall have the burden of proof.

(c) Expenses.--The corporation shall reimburse an indemnified representative for the expenses (including attorneys' fees and disbursements) incurred in successfully prosecuting or defending such arbitration.

(d) Effect.--Any award entered by the arbitrators shall be final, binding and nonappealable and judgment may be entered thereon by any party in accordance with applicable law in any court of competent jurisdiction, except that the corporation shall be entitled to interpose as a defense in any such judicial enforcement proceeding any prior final judicial determination adverse to the indemnified representative under Section 7.01(a)(2) in a proceeding not directly involving indemnification, under this Article. This arbitration provision shall be specifically enforceable.

Section 7.07. Contribution.--If the indemnification provided for in this Article or otherwise is unavailable for any reason in respect of any liability or portion thereof, the corporation shall contribute to the liabilities to which the indemnified representative may be subject in such proportion as is appropriate to reflect the intent of this Article or otherwise.

Section 7.08. Mandatory Indemnification of Directors, Officers, etc.--To the extent that an authorized representative of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in sections 1741 or 1742 of the Business Corporation Law or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees and disbursements) actually and reasonably incurred by such person in connection therewith

Section 7.09. Contract Rights; Amendment or Repeal.--All rights under this Article shall be deemed a contract between the corporation and the indemnified representative pursuant to which the corporation and each indemnified representative intend to be legally bound. Any repeal, amendment or modification hereof shall be prospective only and shall not affect any rights or obligations then existing.

Section 7.10. Scope of Article.--The rights granted by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification, contribution or advancement of expenses may be entitled under any statute, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in an indemnified capacity and as to action in any other capacity. The indemnification, contribution and advancement of expenses provided by or granted pursuant to this Article shall continue as to a person who has ceased to be an indemnified representative in respect of matters arising prior to such time, and shall inure to the benefit of the heirs, executors, administrators and personal representatives of such a person.

Section 7.11. Reliance on Provisions.--Each person who shall act as an indemnified representative of the corporation shall be deemed to be doing so in reliance upon the rights of indemnification, contribution and advancement of expenses provided by this Article.

Section 7.12. Interpretation.--The provisions of this Article are intended to constitute bylaws authorized by 15 Pa.C.S. § 1746.

ARTICLE VIII

Miscellaneous

Section 8.01. Corporate Seal.--The corporation shall have a corporate seal in the form of a circle containing the name of the corporation, the year of incorporation and such

other details as may be approved by the board of directors. The affixation of the corporate seal shall not be necessary to the valid execution, assignment or endorsement by the corporation of any instrument or other document.

Section 8.02. Checks.--All checks, notes, bills of exchange or other similar orders in writing shall be signed by such one or more officers or employees of the corporation as the board of directors may from time to time designate.

Section 8.03. Contracts.--Except as otherwise provided in the Business Corporation Law in the case of transactions that require action by the shareholders, the board of directors may authorize any officer or agent to enter into any contract or to execute or deliver any instrument on behalf of the corporation, and such authority may be general or confined to specific instances.

Section 8.04. Interested Directors or Officers; Quorum.

(a) General Rule.--A contract or transaction between the corporation and one or more of its directors or officers or between the corporation and another corporation, partnership, joint venture, trust or other enterprise in which one or more of its directors or officers are directors or officers or have a financial or other interest, shall not be void or voidable solely for that reason, or solely because the director or officer is present at or participates in the meeting of the board of directors that authorizes the contract or transaction, or solely because his, her or their votes are counted for that purpose, if:

(1) the material facts as to the relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors and the board authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors even though the disinterested directors are less than a quorum;

(2) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the shareholders entitled to vote thereon and the contract or transaction is specifically approved in good faith by vote of those shareholders; or

(3) the contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified by the board of directors or the shareholders.

(b) Quorum.--Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board which authorizes a contract or transaction specified in subsection (a).

Section 8.05. Deposits.--All funds of the corporation shall be deposited from time to time to the credit of the corporation in such banks, trust companies or other depositaries as the board of directors may approve or designate, and all such funds shall be withdrawn only upon checks signed by such one or more officers or employees of the corporation as the board of directors shall from time to time designate.

Section 8.06. Corporate Records.

(a) Required Records.--The corporation shall keep complete and accurate books and records of account, minutes of the proceedings of the incorporators, shareholders and directors and a share register giving the names and addresses of all shareholders and the number and class of shares held by each. The share register shall be kept at either the registered office of the corporation in the Commonwealth of Pennsylvania or at its principal place of business wherever situated or at the office of its registrar or transfer agent. Any books, minutes or other records may be in written form or any other form capable of being converted into written form within a reasonable time.

(b) Right of Inspection.--Every shareholder shall, upon written verified demand stating the purpose thereof, have a right to examine, in person or by agent or attorney, during the usual hours for business for any proper purpose, the share register, books and records of account, and records of the proceedings of the incorporators, shareholders and directors and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to the interest of the person as a shareholder. In every instance where an attorney or other agent is the person who seeks the right of inspection, the demand shall be accompanied by a verified power of attorney or other writing that authorizes the attorney or other agent to so act on behalf of the shareholder. The demand shall be directed to the corporation at its registered office in the Commonwealth of Pennsylvania or at its principal place of business wherever situated.

Section 8.07. Financial Reports.--Unless otherwise agreed between the corporation and a shareholder, the corporation shall furnish to its shareholders annual financial statements, including at least a balance sheet as of the end of each fiscal year and a statement of income and expenses for the fiscal year. The financial statements shall be prepared on the basis of generally accepted accounting principles, if the corporation prepares financial statements for the fiscal year on that basis for any purpose, and may be consolidated statements of the corporation and one or more of its subsidiaries. The financial statements shall be mailed by the corporation to each of its shareholders entitled thereto within 120 days after the close of each fiscal year and, after the mailing and upon written request, shall be mailed by the corporation to any shareholder or beneficial owner entitled thereto to when a copy of the most recent annual financial statements has not previously been mailed.

Statements that are audited or reviewed by a public accountant shall be accompanied by the report of the accountant; in other cases, each copy shall be accompanied by a statement of the person in charge of the financial records of the corporation:

(1) Stating his or her reasonable belief as to whether or not the financial statements were prepared in accordance with generally accepted accounting principles and, if not, describing the basis of presentation.

(2) Describing any material respects in which the financial statements were not prepared on a basis consistent with those prepared for the previous year.

Section 8.08. Amendment of Bylaws.--These bylaws may be amended or repealed, or new bylaws may be adopted, either (i) by vote of the shareholders at any duly organized annual or special meeting of shareholders, or (ii) with respect to those matters that are not by statute committed expressly to the shareholders and regardless of whether the shareholders have previously adopted or approved the bylaw being amended or repealed, by vote of a majority of the board of directors of the corporation in office at any regular or special meeting of directors. Any change in these bylaws shall take effect when adopted unless otherwise provided in the resolution effecting the change. See Section 2.03(b) (relating to notice of action by shareholders on bylaws).

ARTICLE IX

Forum for Adjudication of Disputes

Section 9.01. Forum.-- Unless the corporation, in writing, selects or consents to the selection of an alternative forum, the sole and exclusive forum for any internal corporate claims (as defined below), to the fullest extent permitted by law, and subject to applicable jurisdictional requirements, shall be the Court of Common Pleas of Chester County, Pennsylvania (or, if that forum is not available for any jurisdictional reason, the United States District Court for the Eastern District of Pennsylvania or, if that forum is not available, any other federal or state court within the Commonwealth of Pennsylvania). For purposes of this Article IX, internal corporate claims means claims, including claims in the right of the corporation: (a) that are based upon a violation of a duty by a current or former director, officer, employee or shareholder in such capacity; (b) that arise pursuant to any provision of the Business Corporation Law or as to which the Business Corporation Law confers jurisdiction upon any court; or (c) that are governed by the internal affairs doctrine.

Dated: November 11, 2019

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donald W. Layden, Jr., 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 12, 2019

/s/ Donald W. Layden, Jr.

Donald W. Layden, Jr.

Interim Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Glen E. Goold, 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 12, 2019

/s/ Glen E. Goold

Glen E. Goold

Interim 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 Quarterly Report of USA Technologies, Inc., (the "Company") on Form 10-Q for the period ended September 30, 2019 (the "Report"), I, Donald W. Layden, Jr., 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.

Date: November 12, 2019

/s/ Donald W. Layden, Jr.

Donald W. Layden, Jr.

Interim 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 Quarterly Report of USA Technologies, Inc., (the "Company") on Form 10-Q for the period ended September 30, 2019 (the "Report"), I, Glen E. Goold, Interim 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.

Date: November 12, 2019

/s/ Glen E. Goold

Glen E. Goold

Interim Chief Financial Officer