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USA TECHNOLOGIES INC  
Form SB-2/A  
August 05, 2004

As filed with the Securities and Exchange Commission on August 5, 2004.

Registration No. 333-116977

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Amendment No. 1  
to

FORM SB-2

Registration Statement  
Under  
The Securities Act of 1933

USA TECHNOLOGIES, INC.

-----  
(Exact Name of Registrant as Specified in its Charter)

Pennsylvania ----- (State or other jurisdiction of incorporation or organization)	7359 ----- (Primary Standard Industrial Classification Code Number)	23-2679963 ----- (I.R.S. Employer Identification No.)
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100 Deerfield Lane, Suite 140  
Malvern, Pennsylvania 19355  
(Address of principal executive offices and zip code)

George R. Jensen, Jr.  
Chief Executive Officer  
USA Technologies, Inc.  
100 Deerfield Lane, Suite 140  
Malvern, Pennsylvania 19355  
(610) 989-0340  
(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

Copies to:  
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Lurio & Associates, P. C.  
One Commerce Square  
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Approximate date of proposed sale to the public:

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From time to time after this Registration Statement becomes effective.

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

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

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

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

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

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CALCULATION OF REGISTRATION FEE

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TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT (5)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
COMMON STOCK, NO PAR VALUE	42,436,250 SHARES (1)	\$ .18	\$ 7,638,525.00	\$ 967.80
	1,077,184 SHARES (2)	\$ .18	\$ 193,893.12	\$ 24.56
	3,716,496 SHARES (3)	\$ .18	\$ 668,969.28	\$ 84.76
	150,000 SHARES (4)	\$ .18	\$ 27,000.00	\$ 3.42
TOTAL	47,379,930 SHARES (6)		\$ 8,528,387.40	\$ 1,080.54 (7)

- (1) REPRESENTS 28,290,833 SHARES AND 14,145,417 SHARES UNDERLYING WARRANTS ISSUED TO INVESTORS IN OUR 2004-A PRIVATE PLACEMENT OFFERING.
- (2) REPRESENTS 538,592 SHARES ISSUED TO, AND 538,592 SHARES UNDERLYING WARRANTS GRANTED TO, THE HOLDERS OF OUR SENIOR NOTES WHO ELECTED TO RECEIVE THESE SECURITIES IN LIEU OF CASH INTEREST PAYMENTS DUE FOR THE CALENDAR QUARTER ENDED DECEMBER 31, 2003 AND SHARES AND WARRANTS PERTAINING TO PRIOR QUARTERS NOT PREVIOUSLY REGISTERED.
- (3) REPRESENTS SHARES UNDERLYING WARRANTS GRANTED TO THE HOLDERS OF OUR SENIOR

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NOTES WHO PREVIOUSLY ELECTED TO RECEIVE WARRANTS IN LIEU OF CASH INTEREST PAYMENTS.

- (4) REPRESENTS 150,000 SHARES ISSUED TO CEOCAST, INC.
- (5) PURSUANT TO RULE 457(C), THE REGISTRATION FEE HAS BEEN CALCULATED AT THE AVERAGE OF THE BID AND ASKED PRICE WITHIN 5 DAYS PRIOR TO THE DATE OF THE FILING OF THE REGISTRATION STATEMENT.
- (6) THIS AMENDMENT NO. 1 NO LONGER COVERS 25,000,000 SHARES ISSUABLE TO STEVE ILLES UNDER A STOCK PURCHASE AGREEMENT WHICH HAD BEEN REFLECTED IN THE REGISTRATION STATEMENT FILED ON JUNE 30, 2004.
- (7) A FILING FEE OF \$1,650.69 WAS PAID IN CONNECTION WITH THE FILING OF THE REGISTRATION STATEMENT ON JUNE 30, 2004.

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

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission ("SEC") is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

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### PROSPECTUS

USA TECHNOLOGIES, INC.  
47,379,930 shares of Common Stock

### THE OFFERING

The resale of up to 47,379,930 shares of common stock in the over-the-counter market at the prevailing market price or in negotiated transactions. We will receive no proceeds from the sale of the shares by the selling shareholders. However, we will receive proceeds from the sale of shares issuable upon the exercise of warrants by the selling shareholders. Because the selling shareholders will offer and sell the shares at various times, we have not included in this prospectus information about the price to the public of the shares or the proceeds to the selling shareholders.

Our common stock is included for quotation on the over-the-counter bulletin board under the symbol "USTT." The closing bid price for the common stock on August 3, 2004, was \$.17 per share.

THIS INVESTMENT INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD PURCHASE SHARES ONLY IF YOU CAN AFFORD A COMPLETE LOSS. Please refer to Risk Factors beginning on Page 7.

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or passed on the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is August 5, 2004.

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### PROSPECTUS SUMMARY

#### OUR COMPANY

USA Technologies, Inc., a Pennsylvania corporation (the "Company"), was founded in January 1992. The Company is a developer and supplier of cashless payment and control network systems and provider of related services. The Company's patented technologies include networked cashless transaction solutions and point of purchases devices. In May 2002, the Company completed the acquisition of Stitch Networks Corporation, a Delaware corporation ("Stitch"), and operates Stitch as a wholly owned subsidiary of the Company. Stitch also is a developer and supplier of cashless payment and control network technologies. Through the acquisition of substantially all of the assets of Bayview Technology Group, LLC (Bayview) in July 2003, the Company now designs and manufactures patented energy conservation devices for equipment such as laser printers, monitors, office peripherals, refrigerated vending machines and glass front merchandisers (referred to as slide or visi coolers).

#### OUR BUSINESS

The Company's point of purchase device, called e-Port or TransAct, facilitates the monitor and control, the cashless payment of product and/or services and the

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collection of sales and inventory data for the host equipment it is connected to or embedded in. Examples of host equipment include copiers, faxes, personal computers, printers, vending machines and kiosks. Our customers connect these devices to a network, developed and operated by the Company, which further facilitates the control and monitoring, the settlement of cashless payments and the reporting of sales and inventory data collected at the point of purchase. The Company's systems support multiple cashless payments methods, such as payments via credit/debit cards, smart cards, Radio Frequency Identification (RFID), Personal Identification Numbers (PINs), and cellular telephones.

Revenue from the sale of equipment is recognized on the terms of freight-on-board shipping point, or upon installation and acceptance of the equipment if installation services are purchased for the related equipment. Transaction processing revenue is recognized upon the usage of the Company's cashless payment and control services and network. Service fees for access to the Company's equipment and network are recognized on a monthly basis. Product revenues are recognized from the sale of products from the Company's vending machines upon purchase and acceptance by the vending customer. Product revenues recognized from the sale of energy conservation products are recognized when shipped to the customer.

### OUR MARKET

The Company has focused on the Vending, Kiosk and Office Equipment industries in which to sell its networked, cashless payment systems, and has developed product offerings in each of these channels. The Company markets and sells its product and services directly to the owner, operator of the equipment and/or to equipment distributors and resellers established in each of the respective markets.

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Vending/Kiosk: The Company offers several variations of e-Port to the vending or kiosk industry such as an audit only device and an audit device coupled with cashless payment capabilities. Audit only devices allow the operator of the vending machine to remotely monitor the sales, inventory and diagnostic information of the machine it is embedded into. In addition, our point of purchase device allows the operator of the machine to offer their customers an alternative payment method to cash when purchasing product. Another variation of our e-Port product is our multi-media device. The multi-media e-Port client product is equipped with both the audit and cashless payment features, referred to above, but also includes the capability of displaying interactive advertising and content via a LCD color touch screen. Information obtained at the vending machine by our e-Port client device is transferred back to our network and made available to the operator via the Internet or email.

Office Equipment: The TransAct can be sold separately and connected to office equipment already owned by the purchaser or it can be coupled with office equipment sold by the Company. The combined TransAct and office equipment product is called the Business Express and is sold to hotels wishing to provide their guests with 24x7x365 access to business center services. The same benefits of remote sales and inventory data monitoring, as described above, are available from the TransAct or Business Express product.

Energy Conservation Products

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With the acquisition of Bayview in July 2003, the Company has acquired the following additional products:

- VendingMiser(TM) installs in a cold drink vending machine and reduces the power consumption of the vending machine by an average of 46%;
- CoolerMiser reduces the energy used by sliding glass or pull open glass-front coolers that contain non-perishable goods;
- SnackMiser reduces the amount of electricity used by non-refrigerated snack vending machines;
- MonitorMiser Plus is a computer monitor power controller. It works with all operating systems and performs by powering down the monitor based upon keyboard or mouse activity;
- LaserMiser provides energy conservation to laser printers, shutting them down when they are idle. It is a plug-and-play device that is software transparent and capable of handling any laser printer with a parallel or serial connection;
- Internal VendingMiser (IVM) is the second generation of the VendingMiser in development. It installs into cold drink vending machines and has the capability to control the cooling system and the advertising lights separately.

### Research and Development Costs

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The Company continuously pursues new product offerings related to our existing technology and accordingly invests resources and capital in research and development. For the years ended June 30, 2003 and 2002, the Company expensed approximately \$1,505,000 and \$1,187,000, respectively for the development of our proprietary technology and is reflected in general and administrative expense in the accompanying consolidated financial statements.

### ABOUT OUR OFFERING

Our selling shareholders are as of the date of this prospectus as follows:

\* holders of 28,979,425 shares of common stock

\* holders of unexercised warrants which if exercised would represent 18,400,505 shares (based upon the price of our shares of \$.17 on August 3, 2004, all of these warrants have exercise prices greater than this share price)

Based upon the shares outstanding as of May 31, 2004 of 339,453,012 if all of these warrants are exercised, and all of these shares covered by this prospectus were issued and outstanding, we would have 386,832,942 shares outstanding.

These shares would be offered by our selling shareholders at the market price at

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the time of resale. Our selling shareholders may also sell their shares to other investors in a transaction not on the open market. There is no requirement that our selling shareholders sell their shares pursuant to this prospectus.

We will not receive any of the proceeds raised by the offering. We would receive proceeds from the exercise by the selling shareholders of the warrants or the purchase by Steve Illes from us of shares, as referred to above.

### RISK FACTORS

An investment in our common stock is very risky. You should be aware that you could lose the entire amount of your investment. Prior to making an investment decision, you should carefully consider the following risk factors and the other information contained in this prospectus.

1. We have a history of losses since inception and if we continue to incur losses the price of our shares can be expected to fall.

We have experienced losses since inception. We expect to continue to incur losses for the foreseeable future as we expend substantial resources on sales, marketing, and research and development of our products. From our inception through March 31, 2004, our cumulative losses are approximately \$91.6 million. For our fiscal years ended June 30, 2002 and 2003, and for the nine months ended March 31, 2004, we have incurred net losses of \$17,314,807, \$21,965,499 and \$16,424,278, respectively. If we continue to incur losses, the price of our common stock can be expected to fall.

2. Our existence is dependent on our ability to raise capital which may not be available.

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There is currently limited experience upon which to assume that our business will prove financially profitable or generate more than nominal revenues. From inception, we have generated funds primarily through the sale of securities. There can be no assurances that we will be able to continue to sell additional securities. We expect to raise funds in the future through sales of our debt or equity securities until such time, if ever, as we are able to operate profitably. There can be no assurance given that we will be able to obtain funds in such manner or on terms that are beneficial to us. For the three months ended March 31, 2004 we were using funds in our operations on a monthly basis of approximately \$700,000. Using that as a basis for estimating cash requirements for the next twelve months, along with requirements for capital expenditures and repayment of long term debt, the Company's cash needs would approximate \$9,000,000 through June 30, 2005. Our inability to obtain needed funding can be expected to have a material adverse effect on our operations and our ability to achieve profitability. If we fail to generate increased revenues or fail to sell additional securities you may lose all or a substantial portion of your investment.

3. We received an opinion from our auditor which raises substantial doubt about our ability to continue as a going concern.

Our auditors, Ernst and Young, LLP, have included an explanatory paragraph in their report on our June 30, 2003 consolidated financial statements indicating that as of June 30, 2003, there is substantial doubt about our ability to continue as a going concern. We will require additional funds in the future, and there can be no assurance that any independent auditors' report on our future

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financial statements will not include a similar explanatory paragraph if we are unable to raise sufficient funds or generate sufficient cash from operations to cover the cost of our operations. The existence of the explanatory paragraph may adversely affect our relationship with prospective customers, suppliers and potential investors, and therefore could have a material adverse effect on our business, financial condition and results of operations.

4. We depend on our key personnel and if they would leave us, our business could be adversely affected.

We are dependent on key management personnel, particularly the Chairman and Chief Executive Officer, George R. Jensen, Jr. The loss of services of Mr. Jensen or other executive officers would dramatically affect our business prospects. Certain of our employees are particularly valuable to us because:

- o they have specialized knowledge about our company and operations;
- o they have specialized skills that are important to our operations; or
- o they would be particularly difficult to replace.

We have entered into an employment agreement with Mr. Jensen that expires in June 30, 2005. We have also entered into employment agreements with other executive officers, each of which contain non-compete agreements. We have obtained a key man life insurance policy in the amount of \$2,000,000 on Mr. Jensen, and a key man life insurance policy in the amount of \$1,000,000 on our Vice-President-Research and Development, Haven Brock Kolls, Jr.

We do not have and do not intend to obtain key man life insurance coverage on any of our other executive officers. As a result, we are exposed to the costs associated with the death of these key employees.

5. USA's dependence on proprietary technology and limited ability to protect our intellectual property may adversely affect our ability to compete.

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A successful challenge to our ownership of our technology could materially damage our business prospects. Our technology may infringe upon the proprietary rights of others. Our success is dependent in part on our ability to obtain patent protection for our proprietary products, maintain trade secret protection and operate without infringing the proprietary rights of others.

To date, we have 39 pending patent applications, and intend to file applications for additional patents covering our future products, although there can be no assurance that we will do so. In addition, there can be no assurance that we will maintain or prosecute these applications. The United States Government and other countries have granted us 49 patents as of May 31, 2004. See "Business - Patents, Trademarks and Proprietary Information." There can be no assurance that:

- o any of the remaining patent applications will be granted to us;
- o we will develop additional products that are patentable or do not infringe the patents of others;
- o any patents issued to us will provide us with any competitive advantages or adequate protection for our products;



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- o any patents issued to us will not be challenged, invalidated or circumvented by others; or
- o any of our products would not infringe the patents of others.

If any of the products are found to have infringed any patent, there can be no assurance that we will be able to obtain licenses to continue to manufacture and license such product or that we will not have to pay damages as a result of such infringement. Even if a patent application is granted for any of our products, there can be no assurance that the patented technology will be a commercial success or result in any profits to us.

6. Competition from others with greater resources could prevent USA from increasing revenue and achieving profitability.

Competition from other companies which are well established and have substantially greater resources may reduce our profitability. Many of our competitors have established reputations for success in the development, sale and service of high quality products. We face competition from the following groups:

- o companies offering automated, credit card activated control systems in connection with facsimile machines, personal computers, debit card purchase/revalue stations, and use of the Internet and e-mail which directly compete with our products. See "Business-Competition";
- o companies which have developed unattended, credit card activated control systems currently used in connection with public telephones, prepaid telephone cards, gasoline dispensing machines, or vending machines and are capable of developing control systems in direct competition with USA; and
- o businesses which provide access to the Internet and personal computers to hotel guests. Although these services are not credit card activated, such services would compete with USA's Business Express (R).

Competition may result in lower profit margins on our products or may reduce potential profits or result in a loss of some or all of our customer base. To the extent that our competitors are able to offer more attractive technology, our ability to compete could be adversely affected.

7. The termination of any of our relationships with third parties upon whom we rely for supplies and services that are critical to our products could adversely affect our business and delay achievement of our business plan.

We depend on arrangements with third parties for a variety of component parts used in our products. We have contracted with RadiSys Corporation and Masterwork Electronics to assist us to develop and manufacture our e-Port(TM) products. For other components, we do not have supply contracts with any of our third-party suppliers and we purchase components as needed from time to time. See "Business-Procurement". We have contracted with IBM to develop our network services so that these services are Internet capable as well as interact with our proposed media capable e-Post(TM). We have contracted with IBM to host our network in a secure, 24/7 environment to ensure reliability of our network

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services. If these business relationships are terminated, the implementation of our business plan may be delayed until an alternative supplier or service provider can be retained. If we are unable to find another source or one that is comparable, the content and quality of our products could suffer and our business, operating results and financial condition could be harmed.

8. We do not expect to pay cash dividends in the foreseeable future and therefore investors should not anticipate cash dividends on their investment.

The holders of our common stock and series A preferred stock are entitled to receive dividends when, and if, declared by our board of directors. Our board of directors does not intend to pay cash dividends in the foreseeable future, but instead intends to retain any and all earnings to finance the growth of the business. To date, we have not paid any cash dividends on the common stock or series A preferred stock and there can be no assurance that cash dividends will ever be paid on the common stock.

In addition, our articles of incorporation prohibit the declaration of any dividends on the Common Stock unless and until all unpaid and accumulated dividends on the Series A preferred stock have been declared and paid. Through May 31, 2004, the unpaid and cumulative dividends on the series A preferred stock equal \$6,677,180. The unpaid and cumulative dividends on the series A preferred stock are convertible into shares of common stock at the rate of \$10.00 per share at the option of the shareholder. Through May 31, 2004, \$2,684,444 of unpaid and cumulative dividends on the Series A Preferred Stock were converted into 288,521 shares of common stock. See "Description of Securities-Series A Convertible Preferred Stock."

9. We may fail to gain widespread market acceptance of our products and not generate sufficient revenues or profit margins to become successful.

There can be no assurance that demand for our products will be sufficient to enable us to become profitable. Likewise, no assurance can be given that we will be able to install the TransActs and e-Ports at enough locations or sell equipment utilizing our network to enough locations to achieve significant revenues or that our operations can be conducted profitably. Alternatively, the locations which would utilize the network may not be successful locations and our revenues would be adversely affected. We may in the future lose locations utilizing our products to competitors, or may not be able to install our products at competitor's locations. In addition, there can be no assurance that our products could evolve or be improved to meet the future needs of the market place.

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10. The lack of an established trading market may make it difficult to transfer our stock and you may not be able to sell your shares on our trading market.

Our Common Stock is traded on the OTC Bulletin Board. Although there is limited trading in the Common Stock, there is no established trading market. Until there is an established trading market, holders of the common stock may find it difficult to dispose of, or to obtain accurate quotations for the price of the common stock. See "Description of Securities - Shares Eligible For Future Sale" and "Market For Common Stock."

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11. There are rules governing low-priced stocks that may make it more difficult for you to resell your shares.

Our common stock is currently considered a "penny stock" under federal securities laws since its market price is below \$5.00 per share. Penny stock rules generally impose additional sales practice and disclosure requirements on broker-dealers who sell our shares to certain investors.

Broker-dealers who sell penny stock to certain types of investors are required to comply with the SEC's regulations concerning the transfer of penny stock. If an exemption is not available, these regulations require broker-dealers to:

- make a suitability determination prior to selling penny stock to the purchaser;
- receive the purchaser's written consent to the transaction; and - provide certain written disclosures to the purchaser.
- These rules may affect the ability of broker-dealers to make a market in or trade our shares. This, in turn, may affect your ability to resell those shares in the public market.

12. The substantial market overhang of our shares and registered resales under this prospectus will tend to depress the market price of our shares.

The substantial number of our shares currently eligible for sale in the open market will tend to depress the market price of our shares. See "Description of Securities--Shares Eligible for Future Sale" and "Market for Securities". As of May 31, 2004, these shares consisted of the following:

- 339,453,012 shares of Common Stock
- 522,742 shares of Preferred Stock
- 20,337,777 shares underlying Common Stock options and warrants; and
- 49,276,805 shares underlying our Convertible Senior Notes.

13. Sales of shares eligible for future sale from exercise of warrants and options could depress the market price of our common stock.

We presently have issued and outstanding options to purchase 2,134,232 shares of our common stock and warrants to purchase 18,203,545 shares. The shares underlying all of these options and warrants have been registered and may be freely sold upon issuance. Market sales of large amounts of our common stock, or the potential for those sales even if they do not actually occur, may have the effect of depressing the market price of our common stock. In addition, if our future financing needs require us to issue additional shares of common stock or securities convertible into common stock, the supply of common stock available for resale could be increased which could stimulate trading activity and cause the market price of our common stock to drop, even if our business is doing well.

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14. We are obligated to make substantial principal and interest payments to the holders of the Senior Notes which may not be available or would use our available working capital.

As of the May 31, 2004 we have approximately \$451,152 of unsecured senior notes due on December 31, 2004, approximately \$3,011,791 of unsecured senior notes due on December 31, 2005, approximately \$3,213,500 of unsecured notes due on December 31, 2006, and approximately \$3,404,490 of unsecured notes due on December 31, 2007. These notes accrue cash interest at the rate of twelve percent (12%) per year. We are required to make quarterly interest payments totaling approximately \$302,428 or \$1,209,712 each year.

Until the Senior Notes have been paid by us, they will be reflected as a liability on our financial statements, net of the related unamortized discount and other issuance costs.

Our ability to satisfy the debt obligations is dependent on our future performance, the success of our product lines and on our ability to raise capital. Our performance is also subject to financial, business and market factors affecting our business and operations.

We anticipate that the Senior Notes will be paid from cash from operations, as well as proceeds from securities offerings. However, there can be no assurance that we will meet our obligations to pay quarterly interest on or the principal amount of the senior notes at maturity. The payment of the interest and principal on these notes would utilize our available working capital which would not be available for other purposes.

15. Our exchange of New Senior Notes to our 2004 Senior Note holders may have been in violation of the registration provisions of the securities laws. As a result, certain of our note holders may be granted the right to rescind the exchange and demand the return of their old note to them by us which matures in December 2004. The repayment of these notes in December 2004 would adversely affect our liquidity.

The holders of \$4,067,491 of our Senior Notes due December 31, 2007, may have a right to rescind the exchange of these notes for notes originally due December 31, 2004, and demand that we return to them the \$4,067,491 of notes due December 31, 2004. As of May 31, 2004, \$3,404,490 of these notes remain outstanding. During the period from March 2003 through December 2003, we granted to each holder of the notes due December 31, 2004 the right to extend the notes until December 31, 2007 and in such event agreed that the conversion rate of the note would be reduced from \$.40 to \$.20. On April 14, 2003 we filed a Registration Statement which included the shares underlying the 2007 notes. Because the exchange offering was not completed prior to the filing of this registration statement, the exchange offer may be deemed to have been in violation of the registration requirements of Section 5 of the Act. As a result, we removed all of the shares underlying the 2007 Notes from that registration statement. Generally, the statute of limitations for this type of claim is one year after the date of the alleged violations and if successful, would entitle the Note holders to rescind the issuance of the new notes to them and demand a return of the 2004 Senior Notes. If all of the note holders demanded the return of their notes, we would be obligated to repay the \$4,067,491 principal amount

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on December 31, 2004 rather than on December 31, 2007. This repayment could significantly exceed our cash reserves and require us to borrow funds (which may not be available) and would materially and adversely affect our results of operations and financial condition.

### USE OF PROCEEDS

We will not receive any of the proceeds from the sales of our Common Stock by the selling shareholders. The list of the selling shareholders entitled to receive the net proceeds from any sales of our common stock begins on page 49 of this prospectus. We will, however, receive proceeds from the exercise of any warrants by the selling shareholders.

As of the date of this prospectus, we would receive \$3,680,101 of proceeds from the exercise of all these warrants at the stated exercise prices. Because all of these warrants have exercise prices of \$.20 per share, none of these warrants are in the money as of the date of this prospectus.

### MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### CRITICAL ACCOUNTING POLICIES

##### GENERAL

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

##### REVENUE RECOGNITION

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

##### SOFTWARE DEVELOPMENT COSTS

The Company capitalizes software development costs pursuant to Statement of Financial Accounting Standards No. 86 (SFAS No. 86), "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", after technological feasibility of the software is established and through the

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product's availability for general release to the Company's customers. All costs incurred in the research and development of new software and costs incurred prior to the establishment of technological feasibility are expensed as incurred. Amortization of software development costs commences when the product becomes available for general release to customers. Amortization of software development costs is calculated as the greater of the amount computed using (i) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues of that product or (ii) the straight-line method over the remaining estimated economic life of the product. The Company reviews the unamortized software development costs at each balance sheet date and, if necessary, will write down the balance to net realizable value if the unamortized costs exceed the net realizable value of the asset. During May 2000, the Company reached technological feasibility for the development of the multi-media e-Port client product and related enhanced network and, accordingly, the Company commenced capitalization of software development costs related to this product and network. Costs capitalized through 2002 were \$5.3 million, which included capitalized interest of approximately \$493,000, pursuant to SFAS No. 34, "Capitalization of Interest Costs".

During the fourth quarter of fiscal 2002, the multi-media e-Port(TM) client product and enhanced network became available for general release to the Company's customers. The multimedia e-port(TM) client product is equipped with both the audit and cashless payment features, but also includes the capability of displaying interactive advertising and content via a LCD screen. During this quarter, Management performed an evaluation of the commercial success and preliminary market acceptance of the multi-media e-Port(TM) client product and enhanced network and as a result of this evaluation the Company determined that the estimated future revenues less costs to complete and dispose of the multi-media e-Port client product was zero. Therefore, the Company wrote down \$2,663,000 of software development costs related to the multi-media e-Port client product. The unamortized balance of the software development costs after the impairment charge is being amortized over an estimated useful life of two years. Amortization expense was approximately \$1,331,000 during the year ended June 30, 2003, \$2,996,000 during the year ended June 30, 2002 (including the above impairment adjustment of \$2,663,000) and \$999,000 for nine months ended March 31, 2004. Such amortization is reflected in cost of sales in the accompanying consolidated statements of operations.

### IMPAIRMENT OF LONG LIVED ASSETS

The Company adopted SFAS No. 144 on July 1, 2002. In accordance with SFAS No. 144, the Company reviews its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. During the fourth quarter of fiscal year 2003, the Company reviewed certain long-lived assets (vending machines) and determined that such assets were impaired. These vending machines were used in the Company's Kodak Program to sell disposable cameras and film. Management determined that it was more likely than not that the vending machines would be disposed of before the end of their previously estimated useful lives. The

estimated undiscounted cash flows for this group of assets was less than the carrying value of the related assets. As a result, the Company recorded a charge of approximately \$321,000 representing the difference between the fair value as determined from a quoted market price and carrying value of the group of assets. Such amount is reflected in depreciation expense in the 2003 consolidated statement of operations. During the nine months ended March 31, 2004, the agreement for the Kodak Program was terminated as a result of the settlement of a dispute among the parties to the agreement. The settlement provides, among

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other things, that the Company will receive \$300 for each of the vending machines used in the Kodak Program which resulted in a further write down of \$290,000 in the carrying value of the vending machines. This charge is included in gain on termination of contract in the consolidated statement of operations for the nine months ended March 31, 2004.

### GOODWILL AND INTANGIBLE ASSETS

On July 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 (SFAS No. 142) "Goodwill and other Intangible Assets," under which Goodwill is no longer permitted to be amortized to earnings, but instead is subject to periodic testing for impairment. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. Although the Company did not adopt Statement No. 142 until fiscal year 2003, the non-amortization provisions of Statement No. 142 for combinations initiated after June 30, 2001 were applicable for the Company effective July 1, 2001.

Under SFAS No. 142, the Company tested goodwill for impairment during fiscal year 2003 using the transitional two-step process prescribed by SFAS No. 142. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of the Company with its net book value (or carrying amount), including goodwill. If the fair value of the Company exceeds its carrying amount, goodwill is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of the Company exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the Company's goodwill with the carrying amount of that goodwill. If the carrying amount of the Company's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Determining the fair value of the Company under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a the Company (including unrecognized intangible assets) under the second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. To assist in the process of determining goodwill impairment, the Company performed an internal valuation and estimated fair value using a discounted cash flow analysis. This approach uses significant estimates and assumptions, which include projected future cash flows (including timing), discount rate reflecting the risk inherent in future cash flows and a perpetual growth rate.

The Company performed an annual impairment test of goodwill as of April 1, 2003, as prescribed by SFAS and concluded that there were no impairment indicators. The Company will perform the impairment tests required under SFAS No. 142 on an annual basis unless other indicators are present.

### INVESTMENT

The Company accounts for investments in accordance with Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities". Management determines the appropriate classifications of securities at the time of purchase and reevaluates such designation as of each balance sheet date. Available for sale securities are carried at fair value, with the unrealized gains and losses reported in a separate component of stockholders' equity in other comprehensive income (loss).

A judgmental aspect of accounting for investments involves determining whether an other-than-temporary decline in value of the investment has been sustained. If it has been determined that an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value, by a charge to earnings. Such evaluation is dependent on the specific facts and circumstances. Factors that are considered by the Company each quarter in determining whether an other-than-temporary decline in value has occurred include: the market value of the security in relation to its cost basis; the financial condition of the investee; and the intent and ability to retain the investment for a sufficient period of time to allow for recovery in the market value of the investment. In evaluating the factors above for available-for-sale securities, management presumes a decline in value to be other-than-temporary if the quoted market price of the security is below the investment's cost basis for a period of six months or more. However, the presumption of an other-than-temporary decline in these instances may be overcome if there is persuasive evidence indicating that the decline is temporary in nature (e.g., strong operating performance of investee, historical volatility of investee, etc.).

During the fiscal year ended June 30, 2003, the Company invested in the Jubilee Investment Trust, PLC (Jubilee), a United Kingdom investment trust whose shares trade on the London Stock Exchange. The investment in Jubilee has been accounted for as "available for sale". At June 30, 2003, the Company determined in accordance with SFAS 115, that the decline in the market value of this investment was "other than temporary", as the security's quoted market price was below the investments's cost basis for a period of six months or more. Accordingly, the Company wrote down the investment to its fair value of \$904,049, realizing an impairment loss of \$1,945,951.

#### FORWARD LOOKING STATEMENTS

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



## RESULTS OF OPERATIONS

## NINE MONTHS ENDED MARCH 31, 2004:

The nine months ended March 31, 2004 resulted in a net operating loss of \$16,424,278 (approximately \$9,500,000 non-cash) compared to a net loss of \$12,542,898 (approximately \$3,100,000 million non-cash) for the comparable period in the prior fiscal year.

Revenues for the nine months ended March 31, 2004 increased to \$4,947,882 from \$2,233,330 during the same period in the prior fiscal year, an increase of \$2,714,552 or 122%. This increase was primarily attributed to sales of the Company's energy conservation equipment for the nine months ended March 31, 2004, as such revenues did not exist in the corresponding period of the prior fiscal year since the acquisition of Bayview occurred in July 2003, as well as increases in equipment sales of our cashless technologies and services. Revenues are discussed in more detail as follows:

Equipment sales: Revenues from equipment sales increased to \$3,741,359 from \$880,545 in the corresponding period of the prior fiscal year, an increase of \$2,860,814 or 325%. This increase is mainly due to sales of the Company's energy conservation equipment of approximately \$2,751,000 for the nine months ended March 31, 2004 as such revenues did not exist in the corresponding quarter of the prior year, since the acquisition of Bayview occurred in July 2003. In addition, sales of the Company's cashless technology, which includes e-Port, e-Suds and Kiosk systems, increased to \$521,000, approximately \$225,000 or 76% over the corresponding period of the prior fiscal year. The increases in sales were offset by a decrease in Business Center equipment sales of approximately \$84,000.

Product sales and other: Revenues from product sales and other decreased to \$304,476 from \$357,703, a decrease of \$53,227 or 15% over the same period of the prior fiscal year. This decrease was due to a decrease in camera and film sales from Company owned vending machines of approximately \$254,000 as a result of the wind down of the Kodak Vending Placement Agreement, offset by \$200,000 of revenue recorded in the quarter ended December 31, 2003 relating to the Strategic Alliance Agreement executed in October 2003 between the Company and Conopco, Inc dba Unilever Home & Personal Care North America.

License and transaction fees: Revenues from license and transaction fees decreased \$93,035 or 9% from \$995,082 to \$902,047 for the nine months ended March 31, 2003 and 2004, respectively. This decrease was due to a decrease in fees earned from the Kodak Vending Placement Agreement of approximately \$128,000 as a result of the wind down of the contract, offset by an increase in fees of approximately \$35,000 as a result of an increase in the number of devices connected to the Company's network.

Cost of sales consisted of equipment, product and labor costs of approximately \$1,750,000 and \$723,000 for the nine months ended March 31, 2004 and 2003, respectively, an increase of \$1,027,000; software development amortization of approximately \$999,000 and \$874,000 for the nine months ended March 31, 2004 and 2003, respectively, an increase of \$125,000; and network and transaction related costs of \$488,000 and \$461,000 for the nine months ended March 31, 2004 and 2003, respectively, a increase of \$27,000. The increase of

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\$1,179,351 or 57% in total cost sales from \$2,057,173 to \$3,236,524 for the nine months ended March 31, 2003 and 2004, respectively, was principally attributable to the increase in equipment sales.

Gross profit for the nine months ended March 31, 2004 was \$1,711,358, compared to gross profit of \$176,157 in the same period in the prior fiscal year. The increase of \$1,535,201 was due to increases in hardware sales, particularly the addition of our higher margin, energy conservation equipment sales that were not present in the same period in the prior fiscal year.

Total operating expenses for the nine months ended March 31, 2004 was \$15,306,671, (non-cash \$7,200,000) an increase of \$5,895,104 or 63% over the same period from the prior fiscal year. The components of operating expenses (General and administrative, Compensation, Depreciation and amortization and Loss on debt modification) and the causes of this significant increase in each category are explained further below:

General and administrative expenses increased from \$4,951,021 for the nine months ended March 31, 2003 to \$5,096,447 for the nine months ended March 31, 2004, an increase of \$145,426 or 3%. This increase is due to increases in overall general and administrative expenses of approximately \$1,001,000 related to the acquired energy conservation operation, as such expenses did not exist in the comparable period last fiscal year. This increase was offset by decreases of \$873,000 of professional fees, primarily related to business consulting, promotion and public relations.

Compensation expense increased to \$8,664,200 (non-cash \$4,700,000) for the nine months ended March 31, 2004, a \$5,897,032 or 213% increase over the comparable period last fiscal year. This increase is primarily due to the issuance of 10,500,000 shares of Common Stock to the Company's Chief Executive Officer in connection with the amendment of his employment agreement. This was a one-time, non-cash payment valued at \$4,620,000 representing 80% of the total increase. Other components of this increase were due to approximately \$554,000 increase in bonus expenses, primarily to the Company's executive officers and approximately \$662,000 of additional compensation, including employee benefits and sales commissions, related to the acquired energy conservation operations in July 2003, as such expenses did not exist in the comparable period last fiscal year.

Depreciation and amortization expense for the nine months ended March 31, 2004 was \$1,227,109, compared to \$734,026 for the same period in the prior fiscal year, a \$493,083 or 67% increase. This increase was attributable to amortization expense of intangible assets of \$681,000 and depreciation expense of property and equipment of \$90,000 acquired from Bayview in July 2003, offset by decreases in depreciation of existing assets that have reached the end of their estimated useful life.

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The Company incurred charges during the nine months ended March 31, 2004 and 2003 relating to the modification of debt terms for certain of the Senior Notes in the amount of \$318,915 and \$959,352, respectively. This charge is for the write-off of the unamortized debt discount remaining for Senior Notes scheduled to mature in December 2003 and December 2004 whose conversion and maturity terms were modified. The Company offered these note modifications to the Note holders, and recognized the related non-cash charge to operations in order to manage short-term cash flows.

During the nine months ended March 31, 2004, a gain of \$509,244 was recorded relating to the termination the Kodak Vending Placement Agreement. This gain is comprised of the payment from Kodak of approximately \$675,000 plus the

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cancellation of Stitch's obligation to the supplier of the vending machines of approximately \$124,000 less a write down of the carrying value of vending machines of approximately \$290,000 to their realizable value of \$300 per vending machine. To the extent any costs are incurred by Stitch to fulfill its obligations under the settlement agreement, these costs will be recorded as incurred, as any additional costs cannot be reasonably estimated at this time.

During the nine months ended March 31, 2004, the Company sold 1,669,091 shares of its Jubilee investment for total net proceeds of \$1,471,142, resulting in a gain of \$603,480. Proceeds of \$762,130 were received subsequent to March 31, 2004 and are reflected as an other receivable as of that date.

Total interest expense increased from \$3,319,444 to \$3,971,688 for the nine months ended March 31, 2003 and 2004, respectively, an increase of \$652,244 or 20%. This increase was primarily attributable to charges incurred due to the acceleration of unamortized debt discount and other issuance costs on the 12% Senior Notes that were converted into Common Stock during the nine month period ending March 31, 2004.

### FISCAL YEAR ENDED JUNE 30, 2003:

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

Revenues for the fiscal year ended June 30, 2003 were \$2,853,068, an increase of \$1,170,367 or 70% from the fiscal year ended June 30, 2002. This increase in revenues is primarily due the inclusion of a full year of product revenues and service and transaction fees relating to Stitch Networks Corporation, which accounted for approximately \$1,136,000 of the revenue increase. The remaining increase was due to increased equipment sales of e-Port and Business Express. The Company is continually increasing its sales efforts to sell its e-Port and Business Express products.

Overall, operating expenses for the fiscal year ended June 30, 2003 were \$17,912,707, representing a \$886,842 or 5% increase over the prior period. The significant changes in each category were as follows:

The decrease of \$1,091,458 or 27% in cost of sales is due primarily to amortization of software development costs of \$1,331,000 in 2003 compared to \$2,996,000 in 2002. The 2002 amortization included a one-time impairment charge of \$2,663,000 that was non-recurring in fiscal year 2003. The remaining increase in cost of sales is attributable to the increase in e-Port sales during fiscal year 2003.

The decrease in general and administrative expenses was \$673,380 or 9%. This decrease is due to changes in the following expenses: consulting, advertising, public relations and promotion expense decrease of \$1,368,022 for reduced corporate and investor relations services offset by increases in product development and outside services of \$926,395 for work on the network. We have continued to utilize consultants for general business activities, including network services, and have attempted whenever possible to pay for these services on a non-cash basis through the issuance of debt and equity instruments.

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

Depreciation and amortization expense increased by \$811,478 for the fiscal year ended June 30, 2003, which is attributable to increased depreciation expense

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resulting from assets acquired in the Stitch acquisition, as well as the impairment loss of \$321,476 recorded on a group of vending machines during the fiscal year in accordance with SFAS No. 144.

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The Company incurred a charge during the fiscal year ended June 30, 2003 relating to the modification of debt terms for certain 2000 and 2001 12% Convertible Senior Notes in the amount of \$1,521,654. There was no such comparable charge in the prior year. This charge is for the unamortized debt discount that remained on the Senior Notes that are scheduled to mature in December 2003 and December 2004 whose terms were modified for those note holders who agreed to extend the maturity of their notes in exchange for a reduction in the conversion rate. The Company offered these note modifications (e.g. extended maturity dates), and recognized the related non-cash charge to operations in order to manage short-term cash flows.

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

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

### FISCAL YEAR ENDED JUNE 30, 2002:

For the fiscal year ended June 30, 2002, the Company had a net loss of \$17,314,807 (approximately \$11.0 million non-cash).

Revenues for the fiscal year ended June 30, 2002 were \$1,682,701, an increase of \$231,699 or 16% from the prior year. This increase in revenues is directly attributable to the acquisition of Stitch Networks Corporation, which accounted for \$210,068 of the increase. Other revenues remained flat with the prior year, as the Company's sales efforts did not produce significant revenues due to limited market acceptance, which was less than that anticipated by the Company. The Company is continually increasing its sales efforts to sell its e-Ports and its Business Express products.

Overall, operating expenses for the fiscal year ended June 30, 2002 were \$17,025,865, representing a \$7,365,090 or 76% increase over the prior year. This increase is due to the increases of \$3,113,674 or 328% in cost of sales, \$2,332,938 or 42% in general and administrative expenses, \$1,687,886 or 57% in compensation expense, and \$230,592 or 110% in depreciation and amortization expense. The significant changes in each category are as follows:

The increase of \$3,113,674 or 328% in cost of sales is due primarily to the inclusion of amortization of software development costs and the cost of product relating to Stitch Networks Corporation. In fiscal 2002, the Company recorded software amortization of \$2,996,000, including an impairment charge of \$2,663,000, in cost of sales as required by generally accepted accounting principles. During the fourth quarter of fiscal year 2002, the Company determined that the estimated future revenues less costs to complete and dispose the enhanced e-Port client product was zero, and therefore recorded this impairment charge to reflect software development costs at their net realizable value. There was no amortization expense for software development costs in fiscal year ended 2001. The remaining increase in cost of sales is attributable

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to the increase in sales, primarily related to the Stitch revenues in fiscal 2002.

The increase in general and administrative expenses of \$2,332,938 or 42% is due primarily to the increase in non-cash (securities) compensation in the amount of \$555,482 paid to our investment banker, increase in the non-cash (securities) compensation paid to our public relations consultants in the amount of \$1,601,915, and the increase in non-cash (securities) compensation in the amount of \$657,238 paid to our other business consultants. Although these expenses did not result in increased revenues during the fiscal year, we believe that increased revenues may occur in the future. Our investment banker provided us with various financial advisory services during the fiscal year, including identifying strategic acquisition opportunities. Our public relations consultants assisted us to attempt to introduce the Company and its products as well as communicate with our shareholders. Our other business consultants assisted us during the fiscal year with technical development of and advice in connection with our network and e-Port products. The increases in our general and administrative expenses were offset by a substantial decrease in legal expenses of \$992,181, primarily associated with termination of the Mail Boxes Etc. litigation, which was settled in fiscal year 2001.

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The increase in compensation expense of \$1,687,886 or 57% from the previous year is mainly attributable to an increase in stock bonus expense to Company officers and employees of \$1,248,545, which was a non-cash expense. The stock bonuses were issued in order to adequately compensate and attempt to retain the Company's management team intact. Corporate salaries increased \$342,921 or 113%, due to increased headcount by 16% during the year, primarily due to the addition of Stitch Network's personnel during the last one and one half months of 2002.

Depreciation and amortization expense of \$440,238 increased by \$230,592, which is directly attributable to the increased depreciation expense of the assets acquired in the Stitch acquisition.

Interest expense increased by \$864,929, primarily as a result of the non-cash amortization to interest expense relating to the debt discount and beneficial conversion features on the Company's convertible Senior Notes.

### PLAN OF OPERATIONS

#### Vending

In February 2004, the Company and Motient Corporation, owner and operator of a two-way wireless data network, together launched a marketing program to bring vending machines online using the Company's e-Port cashless payment system and Motient's wireless data network. In December 2003, the Motient wireless network became available to the current generation of e-Port, on-line, vending technology. This connectivity capability has enabled customers to substantially ramp up the adoption of solutions such as cashless vending and data delivery. The targeted goal for the marketing program is to bring 10,000 units online by December 31, 2004. As of March 31, 2004, there were 260 units on the Company's network and Motient wireless network as result of this initiative.

Coinciding with the Motient initiative, described above, was the identifying and pursuit of target markets where customers can be assured of early success from the adoption of cashless technology. As a result of this initiative, sales in the quarter ended March 31, 2004 increased over the

previous two quarters of the 2004 fiscal year, the largest ever increase in e-Port sales, with shipments to 19 different bottlers and vending operators, of which 11 were new accounts. Most notable were sales to an operator for the new Pop Century Hotel at Disney in Orlando, Florida and to a vending operator in Southern California, to address a growing problem of vandalism in their hotel locations. The Company's e-Port cashless payment solution enabled this operator to replace coins and bills completely, thus removing cash reserves in the machines.

The following initiatives were launched during the fourth quarter of fiscal year 2004. First, the availability of new combo readers (combined bill validator and card reader in a single device) brought many joint selling opportunities with MEI and Coinco, manufacturers of these devices. Second, the Company began a campaign titled "Coca-Cola experience with cashless" aimed at acquiring as customers, Coke bottlers throughout the U.S., based upon experiences with current Coca-Cola customers. Lastly, the Company appointed John Roughneen, a successful vending executive, as VP of Strategic Business Development. Mr. Roughneen is well known within the vending industry, and his reputation and prior successes within the vending industry is already having a positive impact on our business.

#### Energy Management

With the acquisition of Bayview on July 11, 2003, the Company now designs and manufactures patented energy conservation devices for equipment such as laser printers, monitors, office peripherals, refrigerated vending machines and glass front merchandisers (referred to as slide or visi coolers). These energy conservation devices reduce power consumption of various types of equipment by allowing the equipment to operate in power saving mode when full power mode is not necessary. These devices, which include the VendingMiser, CoolerMiser, SnackMiser, MonitorMiser and LaserMiser can use activity, occupancy, temperature, timing or other various methods to determine which mode the equipment should be in. Route to market for the energy conservation devices is much the same as the Company's e-Port technology, with the notable addition of governmental and utility rebate and give-away programs, where by part or all of the cost of the energy management device is covered by government funds allocated to energy conservation projects.

In April 2004, the Company launched "Project Get Green", an incentive program developed and sponsored by the National Automatic Merchandiser Association (NAMA) and the Company. This program is aimed at helping the vending industry meet new ENERGY STAR(R) standards for energy consumption that were announced in April 2004 by the Environmental Protection Agency (EPA). The EPA's new standards represent a significant opportunity for the Company, as our technology will render a non-conforming vending machine ENERGY STAR(R) equivalent or compliant. The Company estimates that 4.6 million machines in the U.S. market are candidates for our energy management technology. The joint NAMA and Company initiative includes a 20 percent marketing allowance on the Company's energy management solutions through June 30, 2004 and the Company anticipates increased sales as a result of vending operators taking proactive actions to become compliant with the new EPA standards.

In February 2004, in an effort to continue to strengthen its network of government and utility entities offering rebates for the Company's energy products, Eugene Water & Electric Board, a publicly owned electric utilities company located in the State of Oregon, agreed to offer a \$120 rebate per

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installation of the VendingMiser. To date the Company has twenty-two (22) power utility or government agencies currently offering rebates to customers who install the Company's energy products.

In January 2004, the Company entered into an alliance with the EnergySmart Grocer, an energy consultant to independent grocers, to bring an energy conservation program, utilizing the Company's CoolerMiser and VendingMiser solutions, to thousands of independent grocery stores in the state of California. The program includes a rebate of \$90 for every CoolerMiser and VendingMiser installed. To date, 390 units or \$54,000 has been sold under this program.

The Company has also targeted local, state and federal government agencies as customers for this product line. In order to increase the Company's reach in this regard, the Company embarked on a campaign for General Services Administration (GSA) approval, which would make these products available to all government agencies. The Company is anticipating GSA approval in the near term.

### Laundry

In April 2004, the Company and Caldwell and Gregory entered into a five-year agreement, whereby the Company has granted Caldwell and Gregory rights, subject to total minimum purchase requirements of 10,500 units by September 2008, to exclusively provide e-Suds to colleges and universities in Pennsylvania, Delaware, Maryland, Virginia, West Virginia, Tennessee and the District of Columbia.

In March 2004, the Company installed its eSuds Internet connected laundry system at Carnegie Mellon University, in Pittsburgh, Pennsylvania, on a limited number of machines for a pilot phase working through Caldwell and Gregory, a laundry service operator in the university and college laundry marketplace. After only two weeks into the pilot phase, due to favorable student response, Caldwell and Gregory and Carnegie Mellon University agreed to transition from the pilot to full implementation for the fall semester 2004, giving the universities 4,000 campus residents the ability to use the e-Suds laundry services.

In October 2003, the Company signed a strategic alliance agreement with Conopco, Inc. dba Unilever Home & Personal Care North America to be the exclusive provider of laundry detergent for the e-Suds program to be used in colleges and universities located in the United States. Under the terms of the agreement, the Company agrees to be a reseller of Unilever Products that are dispensed through the USA e-Suds System and the Company will also receive fees from Unilever based on the number of injections of Unilever Products through the USA e-Suds System.

American Sales Inc. (ASI) has signed a five-year agreement to purchase units of Stitch's e-Suds laundry solution for their university locations in the Midwest. In October 2003, the Company installed a system at ASI's facilities for testing, which completed final testing in May 2004. In June 2004, the Company realized unit sales.

### ZiLOG Strategic Alliance

In October 2002, the Company signed a five-year Strategic Alliance with ZiLOG Corporation, a semiconductor company, which is a supplier of microprocessors to the retail point of sale and other industries. One of the purposes of this alliance was to combine the Company's proprietary e-Port software with ZiLOG's eZ80 line of microprocessors, such that the Company might be able to improve price/performance of its product line, and allow ZiLOG to

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market an e-Port enabled, network ready, eZ80 microprocessor. Since the signing of this agreement, the Company has developed, commercialized and implemented, for purchase by its customers, products and services utilizing the work-product of this alliance. For example, in its e-Suds product line, the Company has contracted with Caldwell and Gregory, and American Sales Inc. for up to 19,000 e-Suds "connections". Additionally, the Company has developed, and is beginning to test, its new G-5 e-Port for the vending market.

The Company has also worked with ZiLOG to create an e-Port enabled eZ80 ZiLOG processor, which is intended to allow ZiLOG customers to engineer and manufacture their products with the capability to attach to a network, and in some cases, the Company's network. The e-Port enabled eZ80 ZiLOG processor has been shown at various trade events, and has been demonstrated to a limited number of potential customers.

The Company expects to gain market traction due to improved price/performance - such as in e-Suds and the new G-5 e-Port for vending. Additionally, the Company intends to license software embedded in the e-Port enabled ZiLOG eZ80, as well as, possibly providing network services for ZiLOG customers who engineer and manufacture the e-Port enabled eZ80 ZiLOG processor into the products they bring to market.

### Kodak Vending

In December 2003, the parties to the Kodak Vending Placement Agreement agreed to terms of an early termination of the contract effective December 31, 2003. The settlement resulted in the termination of the vending agreement pursuant to which the Company received a payment from Kodak of approximately \$675,000 and payments equal to \$300 per vending machine from the supplier of the vending machines as the machines are pulled from service at the supplier's sole

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cost and expense. Upon receipt of the \$300 per vending machine, title to the vending machine will transfer to the supplier. The settlement agreement provides that all machines are to be pulled from service no later than mid calendar year 2004. As of the date of this prospectus, substantially all of the machines are no longer in service. In addition, the supplier agreed to cancel an obligation for the purchase of vending machines in the approximate amount of \$124,000.

The vending machines were used as collateral to secure a bank facility used to purchase the machines under which \$377,653 was outstanding as of March 31, 2004. Final payment of the debt will occur no later than the time title of the machines is transferred to the supplier.

Revenues of the Company will be reduced as a result of the vending contract termination. However, because the Kodak program is and has been operating at a loss, the termination of the program would eliminate these ongoing losses. Revenues related to the Kodak program through the fiscal year ended June 30, 2003 were approximately \$1,092,000 and approximately \$124,000 and \$471,000 for the three and nine months ended March 31, 2004, respectively.

### LIQUIDITY AND CAPITAL RESOURCES

During the fiscal year ended June 30, 2003, the Company completed several financing transactions. Net proceeds of \$9,930,879 were realized from private placement offerings of Common Stock including the exercise of Common Stock Purchase Warrants and Options. Proceeds of \$1,833,841 were realized from private placement offerings of 12% Convertible Senior Notes. As of June 30, 2003, the Company had a working capital deficit of \$791,532.



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During the fiscal year ended June 30, 2003, net cash of \$9,228,899 was used by operating activities, primarily due to the net loss of \$21,965,499 offset by the following non-cash charges: \$2,573,301 for Common Stock, Common Stock Warrants and Senior Notes issued for services; \$2,743,083 of non cash depreciation and amortization; \$2,955,158 of non-cash amortization of the debt discount relating to the 12% Convertible Senior Notes; \$1,945,951 for a realized loss on the investment in the Jubilee Trust; \$1,521,654 loss realized on the modifications of the Senior Notes; and \$860,250 of interest expense on the Senior Notes paid through the issuance of Common Stock.

During the fiscal year ended June 30, 2003, net cash used in investing activities was \$186,895 principally due to the investment in computer equipment and furniture and equipment of \$149,000 (a reduction of over \$2 million from 2002 for investments in property, equipment and software development costs). The net cash provided by financing activities of \$11,242,279 was attributable primarily to net proceeds generated from the issuance of Common Stock through private placements, exercise of Common Stock Purchase Warrants, and net proceeds generated through the issuance of the 12% Convertible Senior Notes offset by the payment of long-term debt and capital leases of \$557,441.

In connection with the May 2002 Stitch acquisition (Note 4 to the Consolidated Financial Statements), the Company assumed long term debt of \$3,976,000, which included a vending equipment borrowing facility and working capital loans. The Company repaid \$2,165,000 of the working capital loans in June 2002 leaving an outstanding balance of \$275,000. These loans are secured by certain assets of Stitch. At June 30, 2003 \$166,765 of working capital loans are outstanding which bear interest at 6.75% per annum. Such loans were payable on July 8, 2002. During fiscal year 2003 the bank extended the due date on these loans on several occasions under forbearance agreements. At June 30, 2003, the Company was in default under this working capital loan agreement.

At June 30, 2003 and March 31, 2004 the Company also has a bank facility (the Facility), which was utilized to fund the purchase of vending machines placed at locations where Kodak film products are sold. Borrowings were made from time to time under the facility, with repayment schedules set at the time of each borrowing, including equal monthly payments over 36 months and an interest rate based upon 495 basis points over the three year U.S. Treasury Notes. The Company has granted the bank a security interest in these vending machines. Repayment of principal is also insured by a Surety Bond issued by a third-party insurer in exchange for an initial fee paid by the Company.

For the nine months ended March 31, 2004, net cash of \$7,653,857 was used by operating activities, primarily due to the net loss of \$16,424,278 offset by non-cash charges aggregating approximately \$9,500,000 for transactions involving issuing Common Stock for services and in connection with the amendment to the CEO's employment agreement, depreciation and amortization of assets, amortization of debt discount, loss on debt modifications relating to the Senior Notes and interest expense relating to the Senior Notes paid through the issuance of Common Stock and Common Stock Warrants, offset by a gain on the sale of investment and gain on the termination of a contract. In addition, the Company's net operating assets increased by \$778,969 (primarily inventory and accounts receivable), a substantial portion of which relates to the addition of the energy conservation equipment line from the Bayview acquisition.

For the nine months ended March 31, 2004, net cash used in investing activities was \$257,351, comprised of the cash component of the investment in Bayview, purchases of property and equipment and the proceeds received from the sale of a portion of the investment in the Jubilee Trust.

Proceeds from financing activities for the nine months ended March 31, 2004 provided \$6,986,182 of funds, which was necessary to support cash used in

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operating and investing activities. Proceeds of \$7,544,590 were realized from several private placement offerings of Common Stock, the exercise of Common Stock Warrants and collection of Common Stock subscriptions receivable. Payments of long-term debt and capital leases totaled \$558,408.

Long-term debt obligations of the Company as of March 31, 2004 were as follows:

Bank facility	\$377,653
Working capital loans	76,765
Other, including capital lease obligations	42,462
	-----
	496,880
Less current portion	479,070
	-----
	\$ 17,810
	=====

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The bank facility (the Facility) was utilized to fund the purchase of vending machines placed at locations where Kodak film products are sold. Borrowings were made from time to time under the Facility, with repayment schedules set at the time of each borrowing, including equal monthly payments over 36 months and an interest rate based upon 495 basis points over the three year U.S. Treasury Notes. The Company granted the bank a security interest in the vending machines. Repayment of principal is also insured by a Surety Bond issued by a third-party insurer in exchange for an initial fee paid by the Company. Final maturity, scheduled to extend into the fiscal year ending June 30, 2005, is anticipated to occur during the year ending June 30, 2004 due to the termination of the vending placement agreement and the removal from service and sale of the vending machines used as collateral for the bank facility. As described above, the debt, with a balance outstanding at March 31, 2004 of \$377,653, will be repaid no later than the time Stitch returns the vending machines to the supplier.

In connection with the Stitch acquisition, the Company assumed long-term debt which included a working capital loan. This loan is secured by certain assets of Stitch and bears interest at 6.75% per annum. On November 6, 2003, the Company reached an agreement with the bank to make monthly installments that will repay the remaining balance on the working capital loan by October 2004.

The Company has incurred losses since inception. For the nine months ended March 31, 2004, the net loss was \$16,424,278 of which approximately \$9,500,000 related to non-cash charges. Cumulative losses through March 31, 2004 amounted to approximately \$91,600,000. The Company has continued to raise capital through equity and debt offerings to fund operations.

The impact of the Bayview acquisition on cash flows for the nine months ended March 31, 2004 was a net cash outflow of approximately \$1,000,000 - \$300,000 of cash used in operations and \$728,000 invested in assets and liabilities connected with the purchase. The structure of the acquisition of the energy conservation equipment line from Bayview did not include acquiring the working capital required to support the business. The nine months' operating cash flows reflected an investment for this working capital.

On March 31, 2004, the Company had approximately \$1,500,000 of cash and cash equivalents. As of June 30, 2004, the Company had cash and cash equivalents of approximately \$3,000,000. These cash balances resulted from the proceeds

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generated from the various private placements of Common Stock that have taken place during fiscal 2004, the most recent of which is the 2004-A offering. The 2004-A offering was initiated in February 2004 and resulted in the sale of 28,290,833 shares at \$0.15 per share. Through March 31, 2004, 550,000 shares were sold under this offering resulting in gross proceeds of \$82,500, and subsequent to this date, 27,740,833 shares were sold under this offering resulting in gross proceeds of \$4,161,125. In addition, warrants were exercised during the three months ended June 30, 2004 pursuant to which more than 20,000,000 shares of Common Stock were issued providing proceeds of approximately \$1,800,000.

On June 18, 2004, we entered into a Common Stock Purchase Agreement with Steve Illes. During the one year period following the date of effectiveness of a registration statement covering the shares, Illes has agreed to purchase from USA shares of Common Stock, provided that the aggregate purchase price can not exceed \$7,500,000. Under the Agreement, Illes is permitted to purchase Common Stock from USA at any time at the price per share of \$.30. In addition, USA has the right at any time to require Illes to purchase Common Stock from USA at the lower of: (i) \$.30; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by USA to Illes of notice of his obligation to purchase. USA can require Illes to purchase shares under the Agreement only if the shares have been registered by the Company for resale by Illes under the Act. During any calendar month, Illes is not permitted to purchase and can not be required by USA to purchase Common Stock for an aggregate purchase price in excess of \$700,000. In July 2004, the staff of the Securities and Exchange Commission indicated that because of the discretion given to Mr. Illes under the agreement to purchase shares at any time for \$.30 per share, it was not appropriate to register the shares unless this discretion was eliminated. Promptly following the date of this prospectus, the Company intends to attempt to renegotiate the agreement with Mr. Illes. If the Company is successful, the Company intends to file a new registration statement covering the shares.

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During the year ended June 30, 2003, cash used in operating activities was approximately \$750,000 per month. For the nine months ended March 31, 2004 cash used in operating activities was approximately \$850,000 per month. Operating cash flows during the nine months ended March 31, 2004 were impacted by working capital increases that were disproportionate to the increase in revenues, as well as the investment made in working capital to support the energy management equipment line acquired from Bayview. The nine-month period also absorbed cash bonuses of approximately \$600,000, primarily to the Company's executive officers. The Company believes it can improve its management of working capital, primarily related to accounts receivable, and reduce cash used in operating activities to approximately \$700,000 per month, which is comparable to cash used in operating activities during the three months ended March 31, 2004. The foregoing estimated monthly cash requirement assumes no significant increase in revenues. Using that as a basis for estimating cash requirements for the next twelve months, along with requirements for capital expenditures and repayment of long-term debt, the Company's cash needs would approximate \$9,000,000 through June 30, 2005.

If cash requirements materialize over the next twelve months on the basis described, the Company would expect that the cash resources currently available and in place should be sufficient to provide funding for its operating needs over that period considering cash on hand as of June 30, 2004 and anticipated funding of up to \$7,500,000 under the Common Stock Purchase Agreement with Steve Illes. If we are not successful in renegotiating our agreement with Mr. Illes

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and timely registering the shares, the Company would attempt to enter into appropriate financing arrangements with another investor, or raise the necessary capital through additional private placement offerings of securities. Other sources of capital include (1) future exercises of warrants for which there are "in the money" warrants with exercise prices below \$0.11 per share that would yield approximately \$1,000,000 based on the warrants outstanding as of May 31, 2004 and (ii) the capital markets which the Company believes are available to raise funding if needed given its current product offerings and the markets it is addressing.

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The holders of \$4,067,491 of our Senior Notes due December 31, 2007, may have a right to rescind the exchange of these notes for notes originally due December 31, 2004, and demand that we return to them the \$4,067,491 of Senior Notes due December 31, 2004. As of May 31, 2004, \$3,404,490 of these notes remain outstanding. During the period from March 2003 through December 2003, we granted to each holder of the Senior Notes due December 31, 2004 the right to extend the notes until December 31, 2007 and in such event agreed that the conversion rate of the note would be reduced from \$.40 to \$.20. On April 14, 2003 we filed a registration statement which included all of the shares underlying the 2007 notes. Because the exchange offering was not completed prior to the filing of that Registration Statement, the exchange offer may be deemed to have been in violation of the registration requirements of Section 5 of the Act. As a result, we removed all of the shares underlying the 2007 Notes from that registration statement. Generally, the statute of limitations for this type of claim is one year after the date of the alleged violations and if successful, would entitle the note holders to rescind the issuance of the new notes to them and demand a return of the 2004 notes. If all of the note holders demanded the return of their notes, we would be obligated to repay the \$4,067,491 principal amount on December 31, 2004 rather than on December 31, 2007. This repayment could significantly exceed our cash reserves and require us to borrow funds (which may not be available) and would materially and adversely affect our results of operations and financial condition. Because of the reduced conversion rate of \$.20 per share granted in connection with the extension of the maturity date of these notes, we do not anticipate that a significant number of the noteholders, if any, would demand the return of their old note.

### Commitments

During March 2003, the Company entered into a lease through December 31, 2008 for 12,864 square feet of space in Malvern, Pennsylvania for its principal executive office. The operating lease provides for escalating rent payments and a period of free rent prior to the commencement of the monthly lease payment in January 2004 of approximately \$25,000 per month.

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As a result of the acquisition of Bayview, the Company assumed two additional operating leases for office space located in Denver Colorado, which expire in June 2005. The Denver office space leases 6,742 square feet of space for approximately \$6,000 per month. The lease agreements generally require the Company to pay certain operating expenses, maintenance and property taxes.

### OTHER EVENTS

From February through June 2004, the Company sold 28,290,833 shares of Common

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Stock to 34 accredited investors at \$.15 per share for an aggregate of \$4,243,625. During June 2004, the Company granted to each investor in the offering a warrant to purchase one-half of a share for each share subscribed for by such investor in the offering. The Company issued warrants to purchase a total of 14,145,417 shares. The warrants are exercisable at \$.20 per share at any time through December 31, 2004. We have agreed to register the shares and the shares underlying the warrants under the Act for resale for a period of two years. The offer and sales of the shares was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act. All of the investors were either pre-existing security holders or business associates. The offer and sale thereof did not involve any general advertising or solicitation and the securities contained appropriate restrictive legends under the Act.

In January 2004, we issued 538,592 shares and warrants to purchase up to 538,592 shares to the holders of our senior notes who elected to receive these securities in lieu of the cash interest payment due for the quarter ended December 31, 2003 and for shares and warrants pertaining to prior quarters not previously registered. The shares were purchased at the rate of \$.20 per share and the warrants are exercisable at \$.20 per share at any time through August 30, 2004. We have agreed to register the shares and the shares underlying the warrants under the Act for resale for a period of 2 years. The securities were offered and sold under the exemption from registration set forth in Rule 506 promulgated under the Act. All of the noteholders are accredited investors and existing security holders, and there was no general solicitation or advertising.

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

In January 2004, we issued to CEOCAST, Inc. a total of 150,000 shares for services to be rendered to the Company. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act. The Company agreed to use its best efforts to register the shares for resale under the Act.

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### BUSINESS

USA Technologies, Inc., a Pennsylvania corporation (the "Company"), was founded in January 1992. Currently, the Company's core business is its cashless payment and control network. The equipment component of the network consists of the Company's client devices, e-Port and TransAct, and any associated equipment such as copiers, computers or vending machines. When sold to hotels, the TransAct plus office equipment is called the Business Express(R). The e-Port or TransAct client device allows a consumer to use a credit card to make a purchase from host equipment such as copiers, computers or vending machines and gathers information about sales and operations of the host equipment. The e-Port client products currently are targeted to the vending industry. USA Technologies has historically generated some revenues from the direct sale of this equipment. A second source of revenues is generated from product sales from our Kodak vending machines. In addition, transaction processing revenue is recognized upon the

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usage of the Company's cashless payment and control network. Service fees for access to the Company's equipment and network services are recognized on a monthly basis.

The Company's network brings additional benefits to the auditing and financial services the Company provides its customers. The auditing feature of our e-Port and TransAct client products, captures supply chain data (i.e. units sold, product sold, price of units sold) and other machine diagnostic information, and transmits this information back to either a customer's network or to the USA network for reporting. The Company provides financial services consisting of turnkey processing of unattended cashless transactions; 24x7x365 helpdesk support for customer refunds and troubleshooting and the reporting of sales and inventory data. This service generates monthly network fees, plus transaction processing fees from the retention of a portion of the monies generated from all credit card transactions conducted through its cashless payment and control network.

Our cashless payment and control network operates as follows:

- The consumer swipes a credit card through the e-Port or TransAct.
- The e-Port or TransAct transmits the request to the credit card processor.
- The e-Port or TransAct activates the equipment for use by the consumer.
- Once the consumer finishes using the e-Port or TransAct, the control system transmits a record of the transaction to the credit card processor.
- The credit card processor electronically transfers the proceeds derived from the transaction, less the credit card processor's charge (i.e. transaction fees), to us.
- Finally, we forward money (check or electronic) to each customer representing its share of the proceeds.

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### CASHLESS PAYMENT PROCESSING

Each of the Company's cashless control systems records and transmits all transaction data to the Company, which then forwards it to the credit card processor and related system involving the banks and the credit card companies such as Visa, MasterCard and American Express. Based on the transaction data, the payment for services rendered or product purchased is then electronically transferred to the Company's bank (less various financial charges). The Company then forwards to the location it's agreed upon share of the funds, through check or EFT. In hospitality, if the Company has sold the business center equipment to the location, the portion retained by the Company is generally 5% of the gross revenues. In cases where the Company continues to own the equipment, the portion retained can be as high as 90% of gross revenues. In the Kodak program, charges for product have been negotiated to give Stitch a reasonable margin. In addition the Company charges a fixed monthly management fee which is generally \$20-\$25 per control system for existing hospitality locations.

### PRODUCT LINES

THE E-PORT FOR VENDING

In general, our vending service enables:

- cashless transactions including credit cards, smart cards, student Ids, PDAs and cell phones;
- real-time access to monitor inventory, sales, audit (cash and credit) and machine maintenance via the Internet from any PC;
- the potential of an added revenue stream with a LCD color touch screen for displaying interactive advertising and content on our multi-media e-Port client product.

The e-Port allows a consumer to use a credit card or other forms of cashless payment to make a purchase, and also gathers information about sales and operations of the host equipment. Additional capabilities can include Internet connectivity and wireless communications. With some additional effort, our multi-media e-Port client product could offer the capability for public access electronic commerce and advertising. The multi-media e-Port client device has had limited market acceptance to date.

For the years ended June 30, 2003, June 30 2002, and the nine months ended March 31, 2004 the Company has expensed approximately \$1,505,000, \$1,187,000, and \$474,000, respectively for the development of its proprietary technology. These amounts include the expense of outside consultants and contractors as well as compensation paid to certain of the Company's employees and is reflected in compensation and general and administrative expense in the accompanying consolidated financial statements. Through March 31, 2003 the Company capitalized approximately \$5.3 million for the services of IBM, to program the enhancements to the Company's proprietary "USALive" server network and for the development of the e-Port client product containing multi-media capabilities. During the fourth quarter of fiscal 2002, the multi-media e-Port product and the enhanced network became available for general release and thus began marketing it to the Company's customers. Management performed an evaluation of the commercial success and preliminary market acceptance of the multi-media e-Port client product and the enhanced network and as a result of this evaluation, due mainly to the limited market acceptance of the multi-media e-Port(TR) client product, the Company determined that the estimated future revenues less costs to complete and dispose of the multi-media e-Port (TM) client product was zero. Accordingly, the Company recorded an impairment charge of approximately \$2.7 million of software development costs related to the multi-media e-Port client product reflecting the software development costs at its net realizable value. The Company continues to market the multi-media e-Port client product, and to date, revenues generated from its sale have been insignificant. See Note 2 to the Consolidated Financial Statements.

With the acquisition of Stitch Networks, the Company has acquired vending business with Eastman Kodak. This consists of locating specially designed Kodak vending machines in high profile venues across the United States such as amusement parks, zoos, and sports stadiums. The vending machines dispense disposable cameras and associated film. This agreement will terminate December 31, 2003, and after this date we will continue to receive on going revenues from the approximately 286 placements in service. As discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations, the

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Kodak agreement was terminated effective December 31, 2003.

### THE BUSINESS EXPRESS (R) FOR HOTELS

The hotel/motel hospitality industry has become more competitive as chains increase efforts to attract the most profitable customer: the business traveler or conference attendee, who accounts for the majority of hotel occupancy, stays longer and spends more per visit than the leisure traveler. For these reasons, hotels have become responsive to the needs of the business traveler. The Business Express enables a hotel to address some of these needs, while offering the possibility of generating incremental revenue.

The Business Express utilizes the Company's existing applications for computers, copiers, and facsimile equipment, and combines them into a branded product in a functional kiosk type workstation. All devices are cashless, therefore eliminating the need for an attendant normally required to provide such services.

Our hotel service enables:

- cashless transactions using credit cards and room cards for payment;
- access to unattended 24/7 business center services for hotel guests;
- access to vending machines for hotel guests with the use of their room card.

### E-SUDS (TM) FOR LAUNDRY

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With the acquisition of Stitch Networks, the Company acquired additional product line enhancements. One such enhancement is our university laundry services, which enable:

- students to go on-line and check the availability of laundry machines and receive email or a page when their laundry cycles are complete;
- students to charge the cost of their laundry to their credit card or student account;
- laundry operators to access inventory, sales, audit and maintenance via the Internet from any PC;
- laundry operators to benefit from additional revenue through the sale of detergent automatically added to the wash cycle.

There are minimal revenues in the year ended June 30, 2003 for this product due to it currently being under development.

Through the acquisition of substantially all of the assets of Bayview Technology Group, LLC (Bayview) in July 2003, the Company now designs and manufactures patented energy conservation devices for equipment such as laser printers, monitors, office peripherals, refrigerated vending machines and glass front merchandisers (referred to as slide or visi coolers). These energy conservation products reduce power consumption of various types of equipment by allowing the equipment to operate in power saving mode when full power mode is not necessary. These devices, which include the VendingMiser, CoolerMiser, SnackMiser,



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MonitorMiser and LaserMiser can use activity, occupancy, temperature, timing or other various methods of determining which mode it should be in. Route to market for the energy conservation products is much the same as for the Company's e-Port technology, with the notable addition of governmental and utility rebate and give-away programs where part or all of the cost of the energy management products is covered by government funds available for energy conservation projects.

### ENERGY CONSERVATION PRODUCTS

With the acquisition of Bayview in July 2003, the Company has acquired the following additional products:

- VendingMiser(TM) installs in a cold drink vending machine and reduces the power consumption of the vending machine by an average of 46%;
- CoolerMiser reduces the energy used by sliding glass or pull open glass-front coolers that contain non-perishable goods;
- SnackMiser reduces the amount of electricity used by non-refrigerated snack vending machines;
- MonitorMiser Plus is a computer monitor power controller. It works with all operating systems and performs by powering down the monitor based upon keyboard or mouse activity;
- LaserMiser provides energy conservation to laser printers, shutting them down when they are idle. It is a plug-and-play device that is software transparent and capable of handling any laser printer with a parallel or serial connection;
- Internal VendingMiser (IVM) is the second generation of the VendingMiser in development. It installs into cold drink vending machines and has the capability to control the cooling system and the advertising lights separately.

### MARKETING

As of May 31, 2004, the Company was marketing and selling its products through its full time staff consisting of two people. The Company is primarily focused on the vending, hospitality, kiosk and laundry industries.

Within the vending industry, our e-Port (TM) client product is being purchased by soft drink bottlers and independent vending operators throughout the United States. On the soft drink bottler side, heavy effort is being put into securing initial distribution agreements with the top ten Coke and Pepsi bottlers, and Dr. Pepper. Three of the premier national independent vending operators, Compass, ARAMARK and Sodexo, have already installed e-Port (TM) in various locations. One major vending operator, International Vending Management, has signed a contract with the Company although nominal revenues have resulted to date from this contract.

In March 2002, the Company signed an agreement with MEI (Mars Electronics), who agreed to sell and distribute an MEI branded cashless payment system to be developed by the Company, as part of its portfolio of vending solutions. By contract, MEI has committed to buy a minimum of 10,000 units of the USA product over the course of 24 month agreement or pay the Company \$4.00 per unit for any

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shortfall. Commercial availability is planned for winter 2003 and through the date hereof no revenues have been generated from this arrangement.

The Company continues to work with the top vending machine manufacturers (OEM) in order to incorporate our e-Port (TM) technology into newly manufactured vending machines coming off the factory assembly line. In addition, the Company continues to sell to and increase the number of authorized resellers for its products. In the hospitality industry, Business Express continues to be one of the premier solutions for automated business centers. The addition of e-Port (TM) technology for vending machines located in hotels now offers a "one-stop shopping" experience to hotels that have or are considering purchasing a USA business center.

Within the laundry industry, American Sales Inc. (ASI) has signed a five-year agreement to purchase units of Stitch's e-Suds laundry solution for their university locations in the Midwest. Through the date hereof, the Company has finalized product commercialization. In June 2004, the Company realized unit sales under this contract.

In October 2002, the Company signed a Strategic Alliance Agreement with ZiLOG Corporation, a semiconductor company that is a supplier of microprocessors to the retail point of sale industry. The agreement allows the Company's proprietary network software (USALive) to be embedded on a chip produced by ZiLOG. The Company would license its software to the purchaser and would receive a license fee. A second revenue stream could be generated when those who buy the retail point of sale terminals begin to use them, because they could elect to use the USA network which is embedded on the chip procurement. As of the date hereof, no products have been available for commercial use and accordingly, no revenues have been generated.

The Company utilizes independent third party companies for the manufacturing of its e-Port(TM) product line. The Company purchases other components of its business center (computers, printers, fax and copy machines) through various manufacturers. Orders are regularly placed for expected orders weeks in advance.

### COMPETITION

We are aware of three competitors who offer unattended business centers in the hospitality industry in competition with the Business Express. We believe that our products (currently located in over 400 locations) are in approximately

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seventy-five percent of the locations currently utilizing unattended business centers. We are aware of one competitor in regards to our e-Port control systems for use in the beverage vending industry. There are at the present time very few installations of this product.

In addition, the businesses which have developed unattended, credit card activated control systems currently in use in connection with gasoline dispensing, public telephones, prepaid telephone cards, ticket dispensing machines, vending machines, or facsimile machines, might be capable of developing products or utilizing their existing products in direct competition with our e-port control systems targeted to the beverage vending industry. Many of these businesses are well established, have substantially greater resources than the Company and have established reputations for success in the development, sale and service of high quality products. Any such increased competition may result in reduced sales and/or lower percentages of gross revenues being retained by the Company in connection with its licensing

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arrangements, or otherwise may reduce potential profits or result in a loss of some or all of its customer base. The Company is also aware of several businesses that make available use of the Internet and use of personal computers to hotel guests in their hotel rooms. Such services might compete with the Company's Business Express, and the locations may not order the Business Express, or if ordered, the hotel guest may not use it.

### TRADEMARKS, PROPRIETARY INFORMATION AND PATENTS

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

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

Through May 31, 2004, 47 United States patents and 2 Canadian patents have been issued to the Company (including 4 patents acquired in July 2003 from Bayview). 39 patents are pending (including 2 Canadian and 5 acquired from Bayview).

The list of issued patents is as follows:

- o U.S. Patent No. 5,619,024 entitled "Credit Card and Bank Issued Debit Card Operating System and Method for Controlling and Monitoring Access of Computer and Copy Equipment";

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- o U.S. Patent No. 5,637,845 entitled "Credit and Bank Issued Debit Card Operating System and Method for Controlling a Prepaid Card Encoding/Dispensing Machine";
- o U.S. Patent No. D423,474 entitled "Dataport";
- o U.S. Patent No. D415,742 entitled "Laptop Dataport Enclosure";
- o U.S. Patent No. D418,878 entitled "Sign Holder";
- o U.S. Patent No. 6,056,194 entitled "System and Method for Networking and Controlling Vending Machines";
- o U.S. Patent No. D428,047 entitled "Electronic Commerce Terminal Enclosure";
- o U.S. Patent No. D428,444 entitled "Electronic Commerce Terminal Enclosure for a Vending Machine";

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- o U.S. Patent No. 6,119,934 entitled "Credit Card, Smart Card and Bank Issued Debit Card Operated System and Method for Processing Electronic Transactions";
- o U.S. Patent No. 6,152,365 entitled "Credit and Bank Issued Debit Card Operated System and Method for Controlling a Vending Machine";
- o U.S. Patent No. D437,890 entitled "Electronic Commerce Terminal Enclosure with a Hooked Fastening Edge for a Vending Machine";
- o U.S. Patent No. D441,401 entitled "Electronic Commerce Terminal Enclosure with Brackets";
- o U.S. Patent No. 6,321,985 entitled "System and Method for Networking and Controlling Vending Machines";
- o U.S. Patent No. 6,505,095 entitled "System for Providing Remote Audit, Cashless Payment, and Interactive Transaction Capabilities in a Vending Machine";
- o U.S. Patent No. 6,389,337 entitled "Transacting e-commerce and Conducting e-business Related to Identifying and Procuring Automotive Service and Vehicle Replacement Parts";
- o U.S. Patent No. 6,021,626 entitled "Forming, Packaging, Storing, Displaying and Selling Clothing Articles"; and
- o U.S. Patent No. 6,152,845 entitled "Credit and Bank Issued Debit Card Operated System and Method for Controlling a Prepaid Card Encoding/Dispensing Machine";
- o U.S. Patent No. 6,622,124 entitled "Method of transacting an electronic mail, an electronic commerce, and an electronic business transaction by an electronic commerce terminal operated on a transportation vehicle";

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- o U.S. Patent No. 6,615,186 entitled "Communicating interactive digital content between vehicles and internet based data processing resources for the purpose of transacting e-commerce or conducting e-business";
- o U.S. Patent No. 6,615,183 entitled "Method of warehousing user data entered at an electronic commerce terminal";
- o U.S. Patent No. 6,611,810 entitled "Store display window connected to an electronic commerce terminal";
- o U.S. Patent No. 6,609,103 entitled "Electronic commerce terminal for facilitating incentive-based purchasing on transportation vehicles";
- o U.S. Patent No. 6,609,102 entitled "Universal interactive advertising and payment system for public access electronic commerce and business related products and services";
- o U.S. Patent No. D478,577 entitled "Transceiver base unit";
- o U.S. Patent No. 6,606,605 entitled "Method to obtain customer specific data for public access electronic commerce services";
- o U.S. Patent No. 6,606,602 entitled "Vending machine control system having

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access to the internet for the purposes of transacting e-mail, e-commerce, and e-business, and for conducting vending transactions";

- o U.S. Patent No. 6,604,087 entitled "Vending access to the internet, business application software, e-commerce, and e-business in a hotel room";
- o U.S. Patent No. 6,604,086 entitled "Electronic commerce terminal connected to a vending machine operable as a telephone";
- o U.S. Patent No. 6,604,085 entitled "Universal interactive advertising and payment system network for public access electronic commerce and business related products and services";
- o U.S. Patent No. 6,601,040 entitled "Electronic commerce terminal for wirelessly communicating to a plurality of communication devices";
- o U.S. Patent No. 6,601,039 entitled "Gas pump control system having access to the Internet for the purposes of transacting e-mail, e-commerce, and e-business, and for conducting vending transactions";
- o U.S. Patent No. 6,601,038 entitled "Delivery of goods and services resultant from an electronic commerce transaction by way of a pack and ship type company";
- o U.S. Patent No. 6,601,037 entitled "System and method of processing credit card, e-commerce, and e-business transactions without the merchant incurring transaction processing fees or charges worldwide";
- o U.S. Patent No. D477,030 entitled "Vending machine cashless payment terminal";
- o U.S. Patent No. D476,037 entitled "User interface bracket for a point of sale terminal";

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- o U.S. Patent No. D476,036 entitled "Printer bracket for point of sale terminal";
- o U.S. Patent No. D475,751 entitled "User interface bracket for a point of sale terminal";
- o U.S. Patent No. D475,750 entitled "Paper guide for a point of sale terminal";
- o U.S. Patent No. D475,414 entitled "Printer bracket for point of sale terminal";
- o U.S. Patent No. 5,844,808 entitled "Apparatus and methods for monitoring and communicating with a plurality of networked vending machines";
- o U.S. Patent No. 6,581,396 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode";
- o U.S. Patent No. 6,389,822 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode";
- o U.S. Patent No. 6,243,626 entitled "External power management device with current monitoring precluding shutdown during high current"; and

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- o U.S. Patent No. 5,477,476 entitled "Power conservation system for computer peripherals";
- o U.S. Patent No. 6,629,080 entitled "Transaction processing method of fulfilling an electronic commerce transaction by an electronic commerce terminal system";
- o Canadian Patent No. D199-1014 entitled "Sign Holder";
- o Canadian Patent No. D199-1038 entitled "Laptop Data Port Enclosure".

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

### Employees

On May 31, 2004, the Company had 46 full-time employees. In addition, as a result of the purchase of Bayview on July 11, 2003, the Company currently utilizes the services of 2 full-time independent contractors to Bayview.

### Properties

During March 2003, the Company entered into a lease through December 31, 2008 for 12,864 square feet of space in Malvern, PA for its principal executive office. The operating lease provides for escalating rent payments and a period of free rent prior to the commencement of the monthly lease payment in January 2004 of approximately \$25,000 per month.

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As a result of the July 2003 acquisition of Bayview, the Company assumed two additional operating leases for office space located in Denver, Colorado, which expire in June 2005. The Denver office space leases 6,742 square feet of space for approximately \$6,000 per month. The lease agreements generally require the Company to pay certain operating expenses, maintenance and property taxes.

### Where to get more information

We file annual, quarterly and special reports and other information with the SEC. You may read and copy any document we file with the SEC at the SEC's Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The same information may be obtained at the following Regional Office of the SEC: 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can also be obtained from the Public Reference Section of the SEC's Washington, D.C. office at prescribed rates.

Our filings may also be accessed through the SEC's web site (<http://www.sec.gov>). We will provide a copy of any or all documents incorporated by reference herein (exclusive of exhibits unless such exhibits are specifically incorporated by reference therein), without charge, to each person to whom this prospectus is delivered, upon written or oral request to USA Technologies, Inc., 100 Deerfield Lane, Suite 140, Malvern, Pennsylvania 19355, Attn: George R. Jensen, Jr., Chief Executive Officer (telephone (610) 989-0340).

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

### MANAGEMENT

#### Directors and Executive Officers

Our Directors and executive officers, on May 31, 2004, together with their ages and business backgrounds were as follows:

Name	Age	Position(s) Held
-----	---	-----
George R. Jensen, Jr.	55	Chief Executive Officer, Chairman of the Board of Directors
Stephen P. Herbert	41	President, Director
Haven Brock Kolls, Jr.	37	Vice President - Research and Development
Mary West Young	49	Chief Financial Officer
William W. Sellers (1) (2)	81	Director
William L. Van Alen, Jr. (1) (2)	69	Director
Steven Katz (1)	54	Director
Douglas M. Lurio (2)	47	Director

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(1) Member of Compensation Committee

(2) Member of Audit Committee

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

George R. Jensen, Jr., has been our Chief Executive Officer and a Director since our inception in January 1992. Mr. Jensen was Chairman, Director, and Chief Executive Officer of American Film Technologies, Inc. ("AFT") from 1985 until 1992. AFT was in the business of creating color imaged versions of black-and-white films. From 1979 to 1985, Mr. Jensen was Chief Executive Officer and President of International Film Productions, Inc. Mr. Jensen was the Executive Producer of the twelve hour miniseries, "A.D.", a \$35 million dollar production filmed in Tunisia. Procter and Gamble, Inc., the primary source of funds, co-produced and sponsored the epic, which aired in March 1985 for five consecutive nights on the NBC network. Mr. Jensen was also the Executive Producer for the 1983 special for public television, "A Tribute to Princess Grace". From 1971 to 1978, Mr. Jensen was a securities broker, primarily for the firm of Smith Barney, Harris Upham. Mr. Jensen was chosen 1989 Entrepreneur of the Year in the high technology category for the Philadelphia, Pennsylvania area by Ernst & Young LLP and Inc. Magazine. Mr. Jensen received his Bachelor of Science Degree from the University of Tennessee and is a graduate of the Advanced Management Program at the Wharton School of the University of Pennsylvania.

Stephen P. Herbert was elected a Director in April 1996, and joined USA on a full-time basis on May 6, 1996. Prior to joining us and since 1986, Mr. Herbert had been employed by Pepsi-Cola, the beverage division of PepsiCo, Inc. From 1994 to April 1996, Mr. Herbert was a Manager of Market Strategy. In such position he was responsible for directing development of market strategy for the

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vending channel and subsequently the supermarket channel for Pepsi-Cola in North America. Prior thereto, Mr. Herbert held various sales and management positions with Pepsi-Cola. Mr. Herbert graduated with a Bachelor of Science degree from Louisiana State University.

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

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

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

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

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

Douglas M. Lurio joined the Board of Directors of USA in June 1999. Mr. Lurio is



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

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### EXECUTIVE COMPENSATION

The following table sets forth certain information with respect to compensation paid or accrued by the Company during the fiscal years ended June 30, 2001, June 30, 2002 and June 30, 2003 to each of the executive officers and employee of the Company named below.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation			Long Te
		Salary	Bonus (1)	Other Annual Compensation	Restric Stock Awards
George R. Jensen, Jr., Chief Executive Officer,	2003	\$189,038	\$250,000	\$223,211 (2)	--
	2002	\$135,000	\$288,000	\$ 80,000 (2)	--
	2001	\$135,000	\$140,000	--	--
Stephen P. Herbert, President	2003	\$183,854	\$225,000	\$185,317 (2)	--
	2002	\$125,000	\$270,000	\$ 80,000 (2)	--
	2001	\$125,000	\$134,400	--	--
Leland P. Maxwell, Chief Financial Officer(4)	2003	\$120,000	\$ 85,845	\$ 89,190 (2)	--
	2002	\$110,308	\$151,200	--	--
	2001	\$108,000	\$ 44,240	--	--
H. Brock Kolls, Senior Vice President, Research & Development	2003	\$150,000	\$ 25,000	\$ 64,493 (2)	--
	2002	\$125,769	\$180,000	\$ 50,000 (2)	--
	2001	\$120,000	\$ 97,440	--	--
Michael K. Lawlor, Senior Vice President, Sales and Marketing(4)	2003	\$120,000	\$103,252	\$ 89,190 (2)	--
	2002	\$103,846	\$151,200	--	--
	2001	\$100,000	\$ 38,640	--	--
Adele H. Hepburn Director of Investor Relations	2003	\$ 91,000	\$282,382	--	--
	2002	\$ 91,000	\$472,609	--	--
	2001	\$ 91,000	\$171,700	--	--

(1) For fiscal year 2001, represents shares of Common Stock issued to the executive officers during the fiscal year valued at \$1.12 per share, the closing bid price on the date of issuance. For Mr. Lawlor, the bonus also includes \$1,265 sales commission. For fiscal year 2002, represents shares of Common Stock issued to the executive officers valued at \$0.45 per share, which was the market value on the date of grant (Mr. Jensen-640,000 shares; Mr. Herbert-600,000 shares; Mr. Kolls-400,000 shares; Mr. Maxwell-260,000 shares; and Mr.

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Lawlor-260,000 shares). For Mr. Maxwell and Mr. Lawlor in 2002, the bonus also includes 90,000 shares of Common Stock valued at \$0.38, which was the market price on the day of grant. This stock was awarded to reimburse them for tax payments incurred as a result of the award of a previous bonus. For Adele Hepburn in fiscal 2002, the bonus includes \$408,267 of non cash compensation, as follows: 435,334 shares of Common Stock at \$0.60; 384,334 shares at \$0.10; and a \$108,834 2001 - D 12% Senior Notes due December 31, 2003. For fiscal year 2003, includes a \$100,000 Senior Note due 2005, including 200,000 shares valued at \$.20, and \$150,000 cash bonus for Mr. Jensen and \$100,000 Senior Note due 2005, including 200,000 shares valued at \$0.20 and \$125,000 cash bonus for Mr. Herbert and a \$25,000 cash bonus for Mr. Kolls; and a \$100,000 Senior Note due 2005, including 200,000 shares valued at \$.20 per share, a \$41,095 Senior Note due 2004, and \$100,000 cash bonus for Ms. Hepburn.

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

(3) In July 1999, the Company extended the expiration dates until June 30, 2001 of the options to acquire Common Stock held by the following directors, officers, and employee: Adele Hepburn - 77,000 options; H. Brock Kolls - 20,000 options; William Sellers - 15,500 options; and William Van Alen - 12,500 options. All of the foregoing options would have expired in the first two calendar quarters of the year 2000 or the first calendar quarter of year 2001. In February 2001, all these options were further extended until June 30, 2003, and in addition the expiration dates of the following additional options were also extended to June 30, 2003: H. Brock Kolls - 20,000 options; Stephen Herbert - 40,000 options; Michael Lawlor - 3,750 options; George Jensen - 200,000 options. In October 2000, the Company issued to George R. Jensen, Jr., fully vested options to acquire up to 200,000 shares of Common Stock at \$1.50 per share. The options were exercisable at any time within two years following issuance. In February 2001, the Company extended the expiration date of these options until June 30, 2003. Effective December 31, 2002, all of the outstanding options (whether vested or unvested) then held by each of Messrs. Jensen, Herbert, Kolls, Maxwell, Sellers, Van Alen, Katz, Lurio and Boynton were voluntarily canceled by each of the foregoing individuals.

(4) Employed by the Company through June 30, 2003.

During the fiscal year ended June 30, 2003, there were no grants of stock options to the executive officers or the employee named above.

TOTAL OPTIONS EXERCISED IN FISCAL YEAR ENDED JUNE 30, 2003 AND YEAR END VALUES

The following table gives information for options exercised by each of the named executive officers and an employee in fiscal year 2003, and the number of options held by these executive officers and an employee at fiscal year end:

Name	Shares Acquired On Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at FY-End (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options at FY-End(\$) Exercisable Unexercisable

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Adele H. Hepburn	0	0	77,000/0	0
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During the fiscal year ended June 30, 2003, there were no options exercised by the executive officers and there were no options held by executive officers at fiscal year end.

EXECUTIVE EMPLOYMENT AGREEMENTS

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The Company has entered into an employment agreement with Mr. Jensen which expires June 30, 2005, and is automatically renewed from year to year thereafter unless canceled by Mr. Jensen or the Company. The agreement provides for an annual base salary of \$250,000 effective January 1, 2004. Mr. Jensen is entitled to receive such bonus or bonuses as may be awarded to him by the Board of Directors. In determining whether to pay such a bonus, the Board would use its subjective discretion. The Agreement requires Mr. Jensen to devote his full time and attention to the business and affairs of the Company, and obligates him not to engage in any investments or activities which would compete with the Company during the term of the Agreement and for a period of one year thereafter.

The agreement also grants to Mr. Jensen in the event a "USA Transaction" (as defined below) occurs after the date thereof an aggregate of 14,000,000 shares of Common Stock subject to adjustment for stock splits or combinations ("Jensen Shares"). Mr. Jensen is not required to pay any additional consideration for the Jensen Shares. At the time of any USA Transaction, all of the Jensen Shares are automatically deemed to be issued and outstanding immediately prior to any USA Transaction, and are entitled to be treated as any other issued and outstanding shares of Common Stock in connection with such USA Transaction.

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

The Company has entered into an employment agreement with Mr. Herbert, which expires on June 30, 2005, and is automatically renewed from year to year thereafter unless canceled by Mr. Herbert or the Company. The Agreement provides for an annual base salary of \$230,000 per year effective January 1, 2004. Mr. Herbert is entitled to receive such bonus or bonuses as the Board of Directors may award to him. The Agreement requires Mr. Herbert to devote his full time and attention to the business and affairs of the Company and obligates him not to engage in any investments or activities which would compete with the Company during the term of the agreement and for a period of one year thereafter. In the

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event that a USA Transaction (as defined in Mr. Jensen's employment agreement) shall occur, then Mr. Herbert has the right to terminate his agreement upon 30 days notice to USA.

Mr. Kolls has entered into an employment agreement with the Company, which expires on June 30, 2005, and is automatically renewed from year to year thereafter unless canceled by Mr. Kolls or the Company. The agreement provides for an annual base salary of \$165,000 per year effective January 1, 2004. Mr. Kolls is entitled to a payment of \$5,000 upon each of the following: (i) filing of a new patent application by USA for which he is listed as the inventor; (ii) granting of any such patent application; and (iii) issuance of a patent for any patent application that had been filed prior to April 20, 2004. Mr. Kolls is also entitled to receive such bonus or bonuses as may be awarded to him by the Board of Directors. The Agreement requires Mr. Kolls to devote his full time and

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attention to the business and affairs of the Company, and obligates him not to engage in any investments or activities which would compete with the Company during the term of his agreement and for a period of one year thereafter. In the event that a USA Transaction (as defined in Mr. Jensen's employment agreement) shall occur, then Mr. Kolls has the right to terminate his agreement upon 30 days notice to USA.

Ms. Hepburn has entered into an employment agreement with the Company, which expires on June 30, 2005, and is automatically renewed from year to year thereafter unless canceled by Ms. Hepburn or the Company. The agreement provides for an annual base salary of \$130,000 per year effective January 1, 2004. Ms. Hepburn is also entitled to receive such bonus or bonuses as the Board of Directors may award to her. The Agreement requires Ms. Hepburn to devote her full time and attention to the business and affairs of the Company, and obligates her not to engage in any investments or activities which would compete with the Company during the term of the agreement and for a period of one year thereafter.

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

### COMPENSATION OF DIRECTORS

Members of the Board of Directors receive cash and equity compensation for serving on the Board of Directors.

In April 2002, the Company granted to each of the five outside Directors (Messrs. Sellers, Van Alen, Katz, Lurio, and Boynton) options to purchase up to 100,000 shares of Common Stock at \$0.40 per share as compensation for serving the one-year term, which commenced March 21, 2002. The options are fully vested and are exercisable at any time prior to April 12, 2005. Commencing on July 1,

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2002 and at any and all times through June 30, 2003, each Director has been granted the right, without the payment of the per share exercise price of such options, to receive up to 50,000 shares represented by those options. In September 2002, Edwin P. Boynton elected to receive 50,000 shares in lieu of the above options.

In February 2001, the Company granted a total of 300,000 options to purchase Common Stock at \$1.00 per share to each of the then outside members of the Board (Messrs. Sellers, Van Alen, Smith, Katz, Lurio, and Boynton). Of these, 120,000 options vested immediately; 90,000 options vested on June 30, 2001; and 90,000 vested on June 30, 2002. The options are exercisable at any time within five years following the vesting.

On December 31, 2002, each of Messrs. Sellers, Van Alen, Katz, Lurio, and Boynton voluntarily canceled all of the outstanding options then held by them.

During June 2003, we paid \$50,000 to each of Messrs. Sellers, Van Alen, and Katz for their services as Directors during the 2003 fiscal year. As a condition of the cash payment, each of these Directors agreed to purchase from the Company 500,000 shares of Common Stock at \$0.10 per share.

During June 2004, we paid \$30,000 to each of Messrs. Sellers and Van Alen for their services as Chairs of the Compensation Committee and the Audit Committee, respectively, rendered during the two prior fiscal years. As a condition of the payment, each agreed to purchase 200,000 shares of Common Stock at \$.15 per share in the 2004-A offering.

### PRINCIPAL SHAREHOLDERS

#### Common Stock

The following table sets forth, as of May 31, 2004, the beneficial ownership of the Common Stock of each of the Company's directors and executive officers, the other employee named in the summary compensation table set forth above, as well as by the Company's directors and executive officers as a group. Except as set forth below, the Company is not aware of any beneficial owner of more than five percent of the Common Stock. Except as otherwise indicated, the Company believes that the beneficial owners of the Common Stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable:

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Name and Address of Beneficial Owner -----	Number of Shares of Common Stock Beneficially Owned(1) -----	Percent of Class(2) -----
George R. Jensen, Jr. 517 Legion Road West Chester, Pennsylvania 19382	10,821,000 shares(3)	2.63%
Stephen P. Herbert 536 West Beach Tree Lane Strafford, Pennsylvania 19087	1,986,050 shares(4)	*

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Haven Brock Kolls, Jr. 1573 Potter Drive Pottstown, Pennsylvania 19464	707,325 shares(5)	*
Steven Katz 20 Rebel Drive East Brunswick NJ 08116	535,000 shares	*
Adele H. Hepburn 208 St. Georges Road Ardmore, Pennsylvania 19003	8,787,928 shares(6)	2.14%
Douglas M. Lurio 2005 Market Street, Suite 2340 Philadelphia, Pennsylvania 19103	921,463 shares(7)	*
William W. Sellers 394 East Church Road King of Prussia, Pennsylvania 19406	2,333,812 shares(8)	*
William L. Van Alen, Jr. Cornerstone Entertainment, Inc. P.O. Box 727 Edgemont, Pennsylvania 19028	1,973,340 shares(9)	*
Mary West Young 2175 Wyndtree Lane Malvern, PA 19355	237,500 shares (10)	*
All Directors and Executive Officers As a Group (8 persons)	19,515,490 shares(11)	4.75%

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\* Less than one percent (1%)

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and derives from either voting or investment power with respect to securities. Shares of Common Stock issuable upon conversion of the Preferred Stock, shares issuable upon the conversion of Convertible Senior Notes, or shares of Common Stock issuable upon exercise of warrants and options currently exercisable, or exercisable within 60 days of May 31, 2004, are deemed to be beneficially owned for purposes hereof.

(2) On May 31, 2004 there were 339,453,012 shares of Common Stock and 522,742 shares of Series A Preferred Stock issued and outstanding. For purposes of computing the percentages under this table, it is assumed that all shares of issued and outstanding Preferred Stock have been converted into 522,742 shares of Common Stock, that all of the options to acquire Common Stock which have been issued and are fully vested as of May 31, 2004 (or within 60-days of May 31, 2004) have been converted into 2,134,232 shares of Common Stock. For purposes of computing such percentages it has also been assumed that all of the remaining Purchase Warrants have been exercised for 18,203,545 shares of Common Stock; that all of the Senior Notes have been converted into 49,276,805 shares of Common Stock; and that all of the accrued and unpaid dividends on the Preferred Stock have been converted, into 667,718 shares of Common Stock. Therefore, for purposes of computing the percentages under this table, there are 410,258,054 shares of Common Stock issued and outstanding.

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(3) Includes 511,000 shares of Common Stock beneficially owned by his spouse. Does not include the right granted to Mr. Jensen under his Employment Agreement to receive Common Stock upon the occurrence of a USA Transaction (as defined therein). See "Executive Employment Agreements". Includes 6,000,000 shares owned by George R. Jensen, Jr. Grantor Retained Unitrust dated July 14, 2003 over which Mr. Jensen retains beneficial ownership.

(4) Includes 250,000 shares issuable to Mr. Herbert upon the conversion of Senior Notes, 1,050 shares of Common Stock beneficially owned by his child, 600,000 shares of Common Stock beneficially owned by his spouse and 250,000 shares issuable upon the conversion of Senior Notes beneficially owned by his spouse.

(5) Includes 12,000 shares of Common Stock owned by Mr. Kolls' spouse, 150,000 shares issuable to his spouse upon conversion of her Senior Note and 3,600 shares issuable upon the exercise of warrants beneficially owned by his spouse.

(6) Includes 473,044 shares of Common Stock owned by her spouse, 5,150 shares underlying Series A Preferred Stock held by her and her spouse, 1,615,418 shares issuable upon the conversion of her Senior Notes, 58,495 shares issuable to her spouse upon the conversion of his Senior Notes, and 22,589 shares issuable upon the exercise of her warrants.

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(7) Includes 225,000 shares issuable upon conversion of Senior Notes.

(8) Includes 17,846 shares of Common Stock owned by the Sellers Pension Plan of which Mr. Sellers is a trustee, 4,952 shares of Common Stock owned by Sellers Process Equipment Company of which he is a Director, and 10,423 shares of Common Stock owned by Mr. Seller's wife. Includes 408,334 shares issuable upon conversion of his Senior Notes.

(9) Includes 116,670 shares of Common Stock issuable to Mr. Van Alen upon conversion of his Senior Notes and 4,000 shares of Common Stock beneficially owned by his spouse.

(10) Includes 37,500 shares of Common Stock issuable upon exercise of options.

(11) Includes all shares of Common Stock described in footnotes (3) through (5) and (7) through (10) above.

Preferred Stock

The following table sets forth, as of May 31, 2004 the beneficial ownership of the Preferred Stock by the Company's directors and executive officers, the other employee named in the Summary Compensation Table set forth above, as well as by the Company's directors and executive officers as a group. Except as set forth below, the Company is not aware of any beneficial owner of more than five percent of the Preferred Stock. Except as otherwise indicated, the Company believes that the beneficial owners of the Preferred Stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable.

Name and Address of Beneficial Owner	Number of Shares of Preferred Stock Beneficially Owned	Percent of Class(1)
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Adele H. Hepburn 208 St. Georges Road Ardmore, Pennsylvania 19003	5,150 shares	*
All Directors and Executive Officers As a Group (8 persons)	0	*

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\* Less than 1%.

(1) There were 522,742 shares of Preferred Stock issued and outstanding as of May 31, 2004.

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### CERTAIN TRANSACTIONS

On December 31, 2000, Stitch Networks Corporation ("Stitch") executed a Vending Placement, Supply and Distribution Agreement with Eastman Kodak Company, Maytag Corporation and Dixie Narco, Inc., which formed a strategic alliance to market and execute a national vending program for the sale of one-time use camera and film products. The Agreement provides for an initial term of three years ending December 31, 2003, with additional provisions for early termination and extensions as defined. Furthermore, the Agreement also provides for exclusivity among the parties for the term of the Agreement relating to the sale of camera and film products from vending machines within the Continental United States. Pursuant to this agreement, Stitch, the Company's subsidiary, purchases vending machines from Dixie-Narco, Inc. ("Dixie"). Dixie is owned by Maytag Corporation which is the owner of the Company's shareholder, Maytag Holdings, Inc. Mr. Boyle, a former Director of the Company, is a Vice President of Maytag Corporation. There were purchases from Dixie of \$201,000 and \$8,000 for the fiscal year ended June 30, 2003 and for the period May 14, 2002 through June 30, 2002, respectively. There were no purchase during the nine months ended March 31, 2004. Amounts payable to Dixie remains approximately \$130,000 and \$124,000 and are included in accounts payable in the June 30, 2003 and 2002 consolidated balance sheets of the Company.

During the fiscal years ended June 30, 2003 and June 30, 2002, the Company incurred charges to Lurio & Associates, P.C., of which Mr. Lurio is President and a shareholder, for professional fees of approximately \$305,000 and \$213,000 respectively, for legal services rendered to the Company by such law firm. During the years ended June 30, 2003 and 2002, the Company accrued approximately \$22,000 and \$30,000, respectively, for these services. Mr. Lurio is a Director of the Company.

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

In April and May 2003, the Company authorized the payment of \$420,000 over the following six months to its five executive officers. The payments are to



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assist in the 2002 tax liability incurred by the executives due to common stock bonuses received by them during calendar year 2002.

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

On July 10, 2003, USA and George R. Jensen, Jr., Chief Executive Officer and Chairman of USA, agreed upon an amendment to Mr. Jensen's employment agreement. Pursuant thereto, the number of shares of Common Stock of USA issuable to Mr. Jensen by USA upon the occurrence of a "USA Transaction" (as such term is defined in his employment agreement) was fixed at 14,000,000 shares rather than

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seven percent of the then issued and outstanding shares as previously provided. USA also agreed to issue to Mr. Jensen an aggregate of 10,500,000 shares of restricted Common Stock, 2,500,000 shares of which will be issued as compensation to Mr. Jensen for future services, and 8,000,000 shares of which will be issued to Mr. Jensen in connection with the employment agreement amendment. Mr. Jensen has agreed to enter into a lock up agreement pursuant to which he shall not sell 2,500,000 of the shares for a one-year period and 8,000,000 of the shares for a two-year period.

The Company does not have any policy with respect to entering into future related party transactions.

### SELLING SHAREHOLDERS

Each of the selling shareholders listed below is, as of the date hereof, the holder of our common stock or has the right to acquire the number of shares of common stock or has agreed to purchase the number of shares of common stock set forth opposite such selling shareholder's name. The issuance of the common stock to the selling shareholders as well as the issuance of the common stock to the selling shareholders upon exercise of the warrants was or will be a transaction exempt from the registration requirements of the Act and various state securities laws.

We have agreed, at our expense, to register all of the common stock for resale by the selling shareholders under the Act. We expect to incur expenses of approximately \$30,000 in connection with the registration statement of which this prospectus is a part.

The number of shares that may be actually sold by the selling shareholder will be determined by the selling shareholder. The selling shareholders are under no obligation to sell all or any portion of the shares offered, nor are the selling shareholders obligated to sell such shares immediately under this Prospectus. Particular selling shareholders may not have a preset intention of selling their shares and may offer less than the number of shares indicated. Because the selling shareholder may sell all, some or none of the shares of common stock that the selling shareholder holds, no estimate can be given as to the number of shares of our common stock that will be held by the selling shareholder upon termination of the offering. Shares of common stock may be sold from time to time by the selling shareholders or by pledgees, donees, transferees or other successors in interest.

The following tables set forth information with respect to each selling

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shareholder and the respective amounts of common stock that may be offered pursuant to this prospectus. None of the selling shareholders has, or within the past three years has had, any position, office or other material relationship with us, except as noted below. Except as specifically set forth below, following the offering, and assuming all of the common stock offered hereby has been sold, none of the selling shareholders will beneficially own one percent (1%) or more of the common stock.

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### CEOCAST COMMON STOCK

Selling Shareholder -----	Common Stock Offered Hereby(24) -----	Beneficial Ownership after Offering	
		Number -----	Percent -----
CEOCAST, INC.(1)	150,000	450,000	*

-----  
\* Less than 1%

(1) CEOCAST IS OUR PUBLIC RELATIONS CONSULTANT. REPRESENTS SHARES ISSUED BY US IN JANUARY 2004 AT \$.22 PER SHARE FOR SERVICES RENDERED TO US. WE HAVE AGREED TO REGISTER THESE SHARES FOR RESALE UNDER THE ACT AT OUR COST AND EXPENSE THROUGH JUNE 30, 2005. THE NATURAL PERSONS WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO THE SHARES IS RACHEL GLICKSMAN AND GARY NASH.

### 2004-A OFFERING

Selling Shareholder -----	Common Stock Offered Hereby(15) -----	Beneficial Ownership after Offering	
		Number -----	Percent -----
SUSAN H BOTHNER	750,000	0	*
WILLIAM L CARHART	311,250	0	*
CEOCAST INC (1)	450,000	150,000	*
FAROOQ A CHAUDHRY	75,000	0	*
SHERI-LYNN DEMARIS	2,000,000	0	*
SUKHDEV S & NONI P DHINDSA	1,000,000	0	*
FRIEDLAND CAPITAL INC (2)	600,000	0	*
CAPE MCKINNON INC. (3)	750,000	0	*
ROBERT C HECTOR JR	750,000	0	*
ADELE H HEPBURN (4)	500,000	6,184,623	1.50
STEPHEN P HERBERT (5)	750,000	1,100,000	*
STEVE ILLES (6)	7,500,000	33,520,000	8.15
BURTON JENSEN	1,100,000	0	*
DAVE JENSEN	1,100,000	0	*
RON JENSEN	1,100,000	0	*
LEONARDO CAPITAL FUND LTD (7)	4,500,000	0	*
GREGG NEWHUIS	1,500,000	0	*
MICHAEL J OBRIEN	450,000	0	*
GEORGE OCONNELL	1,500,000	0	*
PETER B PAKRADOONI	150,000	0	*
PALISADES MASTER FUND LP (8)	4,500,000	0	*
WILLIAM RECKTENWALD	300,000	0	*
YOMI RODRIG	3,000,000	0	*
JOHN ROUGHNEEN (9)	300,000	0	*
WILLIAM W SELLERS (10)	300,000	2,333,812	*

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DANIEL E SPEALMAN	1,000,000		
BB SECURITIES CUSTODIAN			
FBO DANIEL E SPEALMAN IRA	1,250,000	0	*
STANDARD BANK LONDON (11)	1,500,000	0	*
LUCAS POST VAN ALEN	187,500	0	*
WILLIAM L VAN ALEN III	75,000	0	*
WILLIAM L VAN ALEN JR (12)	1,537,500	315,538	*
FRANCIS E. WOLFE	150,000	0	*
FRANCES YOUNG (13)	1,200,000	0	*
MARY WEST YOUNG (14)	300,000	37,500	*

Total 42,436,250

\* less than 1 %.

- (1) CEOCAST IS OUR PUBLIC RELATIONS CONSULTANT. THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO SHARES HELD OF RECORD BY THE ENTITY, CEOCAST, INC. IS RACHEL GLICKSMAN AND GARY NASH.
- (2) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO SHARES HELD OF RECORD BY THE ENTITY, FRIEDLAND CAPITAL INC IS JEFF FRIEDLAND.
- (3) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED DISPOSITIVE POWERS WITH RESPECT TO THE SHARES HELD OF RECORD BY THE ENTITY, CAPE MCKINNON INC, IS STEVE FRYE.
- (4) MS. HEPBURN IS AN EMPLOYEE OF THE COMPANY.
- (5) MR. HERBERT IS A DIRECTOR AND OUR PRESIDENT AND CHIEF OPERATING OFFICER.
- (6) MR. ILLES IS A CONSULTANT TO THE COMPANY.
- (7) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO SHARES HELD OF RECORD BY THE ENTITY, LEONARDO CAPITAL FUND LTD IS NEVIL DE TSCHARNER.
- (8) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO SHARES HELD OF RECORD BY THE ENTITY, PAILSADDES MASTER FUND LP IS ANDY RUCKLESS.
- (9) MR. ROUGHNEEN IS AN EMPLOYEE OF THE COMPANY.
- (10) MR. SELLERS IS A DIRECTOR OF THE COMPANY.
- (11) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO SHARES HELD OF RECORD BY THE ENTITY, STANDARD BANK LONDON IS YOMI RODRIG.
- (12) MR. VAN ALEN IS A DIRECTOR OF THE COMPANY.
- (13) MS. YOUNG IS A FORMER EMPLOYEE OF THE COMPANY.
- (14) MS. YOUNG IS CHIEF FINANCIAL OFFICER OF THE COMPANY.
- (15) REPRESENTS 28,290,833 SHARES PURCHASED FOR \$.15 PER SHARE AND 14,145,417 SHARES UNDERLYING WARRANTS EXERCISABLE AT \$.20 PER SHARE AT ANY TIME PRIOR TO DECEMBER 31, 2004 ISSUED TO INVESTORS IN OUR 2004-A PRIVATE PLACEMENT. AS OF THE DATE HEREOF, NONE OF THESE WARRANTS HAVE BEEN EXERCISED. WE HAVE AGREED TO REGISTER THESE SHARES FOR RESALE AT OUR COST AND EXPENSE THROUGH JUNE 30, 2006.

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DECEMBER 2003 INTEREST COMMON STOCK

Selling Shareholder -----	Common Stock Offered Hereby (16) -----	Beneficial Ownership after Offering Number -----	Percent -----
DONALD T AANESTAD	9,000	0	*
VIJAY ALIMACHANDANI	1,500	0	*
JOHN P AYERS	4,500	0	*
CHARLES F BELLAVIA	4,500	0	*
BENJAMIN LEEBIRD	4,500	0	*
KATHLYNE K BIRDSALL	563	0	*
JOSEPH J BOLITSKY	30,000	0	*
EDWIN R BOYNTON(1)	14,625	0	*
DAVID G BRAY	900	0	*
DOUGLAS & CAROLYN BRITTAIN	9,000	0	*
BRITTAIN FAMILY TRUST (2)	3,000	0	*
GORDON L BRODINE	18,000	0	*
MICHAEL J BUDINETZ	6,413	0	*
CARLSON INVESTMENTS (3)	34,200	0	*
MICHAEL J CHIORDI	4,500	0	*
GERALD E CLARK JR	3,150	0	*
DIANE CLOUTIER	27,000	0	*
ROGER D COFFEY	4,500	0	*
MARC A COHEN	16,875	0	*
CORNERSTONE PUBLIC RELATIONS GRP. (4)	422	0	*
JIM CROSS	1,500	0	*
WILLIAM R CROTHERS	2,813	0	*
LORRAINE CROW	450	0	*
CLIFTON B CURRIN TR FBO CLIFTON B CURRIN TRUST UA MARCH 8, 1989	9,000	0	*
BENJAMIN DEACON	1,125	0	*
DELTA WESTERN COMPANY (5)	16,875	0	*
LOUIS E DI RENZO	2,250	0	*
ANEES T DIN	12,150	0	*
LEO J DOLAN	9,000	0	*
ROBERT F DRESS	3,300	0	*
HOWARD EFFRON	4,500	0	*
BENTLY ELLIOTT	450	0	*
ANTHONY J FANELLI	12,150	0	*
HELEN K FOX	4,500	0	*
SAMANTHA HARRIS FULMER	450	0	*
DOROTHY GALVIN	450	0	*
MARGARET R GEDDIS	1,125	0	*
ROBERT G GIDDENS	47,055	0	*
FREDERICK F GLOCKNER	450	0	*
WILLIAM M GOLDSTEIN	13,500	0	*
EDWARD HALDEMAN	9,000	0	*
PAULINE E HALDEMAN	9,000	0	*
IRA FBO ROBERT A HAMILTON (6)	1,890	101,752	*
JOHN E HAMILTON	1,350	0	*
ROBERT A HAMILTON (6)	4,095	104,713	*
PETER & DEBORAH HARRIS	2,250	0	*
JOYCE HODGES	2,250	0	*
MICHELLE HOLLENSHEAD	938	0	*
JAMES M HOLMWOOD	3,300	0	*
HRUBALA ASSOCIATES (7)	9,000	0	*
GORDON F HUDSON	9,000	0	*

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CHRISTINE F HUGHES	1,125	0	*
WENDY JENKINS (8)	9,000	20,800	*
CHARLES T JONES	2,250	0	*
IRA FBO FRED KARAGOSIAN PERSHING LLC C/F ROTH CONVERSION ACCOUNT 7FP-001878	4,500	0	*
GLORIA & FRED KARN	450	0	*
MICHAEL KATCHUR	3,375	0	*
MAUDE WOOD KENT	4,500	0	*
THOMAS & MAUDE WOOD KENT	4,500	0	*
ROBERT A KILGORE	22,500	0	*
SHIRLEY K KNERR	4,050	0	*
GREGORY S KOBUS	4,500	0	*
PAUL G LANNI	4,500	0	*
WARREN D LEWIS	7,125	0	*
H MATHER LIPPINCOTT JR	4,500	0	*
ANTHONY F LOPEZ	9,000	0	*
ROBERT LOZOWSKI	900	0	*
DOUGLAS LURIO (9)	6,750	914,713	*
JAMES P MACCAIN	17,250	0	*
LEWIS F MADAN	900	0	*
KATHLEEN J MASON	39,000	0	*
BARRY N MCCABE	4,500	0	*
DUANE C MCCARTHY	450	0	*
G ELLARD MCCARTHY	2,250	0	*
JOHN F MCCORMICK	22,500	0	*
BOB MCGARRAH (10)	13,500	0	*
JOHN P MCGONIGLE	450	0	*
MARY C MCGONIGLE	450	0	*
MEDIATECH PARTNERS (11)	324,089	0	*
EILEEN MILLER	1,800	0	*
HARLEY & BROOK MILLER	9,488	0	*
GEORGE W MOFFITT JR	5,063	0	*
THOMAS MOLUMPHY	2,250	0	*
MOLUMPHY CAPITAL MGMT (12)	4,500	0	*
ROBERT H MONTGOMERY	12,000	0	*
MAC G MORRIS	2,250	0	*
JAMES MOSIER	9,000	0	*
ELIZABETH L NELSON	16,875	0	*
ROBERT F NEMETH	9,000	0	*
GREGG J NEWHUIS	49,500	0	*
JEFFREY M NEWHUIS	3,150	0	*
PATRICK NOLAN	10,564	0	*
PAUL NORDIN	1,500	0	*
GEORGE O'CONNELL	96,750	0	*
OLDOM & CO	4,500	0	*
ROBERT PADRICK	18,000	0	*
ROBERT PADRICK TRUSTEE FBO KELLIE NICOLE PADRICK	4,500	0	*

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ROBERT PADRICK TRUSTEE FOR ROBERT G PADRICK	9,000	0	*
MICHAEL A PARKER	1,500	0	*
NEIL L PARKER	2,250	0	*
RICHARD & LAURA PARKER	11,250	0	*
JOSEPH PELLEGRINO	90,000	0	*
ROBERT H POTTS	4,500	0	*

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CHARLES W PROCTOR III	188	0	*
ERNEST L RANSOME III	2,250	0	*
HARRY RENNER IV	37,688	0	*
JOHN B RETTEW III	6,000	0	*
GARDINER ROGERS	4,950	0	*
MARIE G ROPER	2,250	0	*
GERALD B ROSENTHAL	9,000	0	*
KARL F RUGART	12,375	0	*
JOHN S RUPP	4,500	0	*
VALENTINA SAS	900	0	*
EDWARD L SCHOENHUT	9,000	0	*
STEPHEN SCHWARTZ	11,250	0	*
MARY L SCRANTON	2,625	0	*
NICHOLAS SELLERS	4,500	0	*
RAYMOND K SHOTWELL	2,475	0	*
LEONARD H SICHEL JR	4,500	0	*
RICHARD SMITH	1,200	0	*
KATHY SMITLEY	2,250	0	*
TERRY W STANGLEIN	16,200	0	*
ELINOR STEINHILBER	4,500	0	*
MICHAEL & ELLEN STEIR	5,625	0	*
CPT ERIC W STETSON	2,250	0	*
GERTRUDE T STEVENS	15,625	0	*
HOMER N STEWART	4,500	0	*
PRISCILLA STITT	675	0	*
VIVIAN STROUD (13)	2,250	175,825	*
GEORGE E SZYCHOSKI	45	0	*
MICHAEL W SZYCHOSKI	113	0	*
CONSTANTINE TEOFIL SZYMBORSKI	4,500	0	*
ALFRED & SUSAN THOMPSON	1,238	0	*
ANDREW THOMPSON	225	0	*
WILLIAM E THOROUGHGOOD	1,125	0	*
GUILLERMO M TORRES	18,000	0	*
JAMES TURNER (14)	18,000	0	*
WILLIAM L VAN ALEN JR (15)	24,000	1,829,038	*
DAVID L WEAVER	2,340	0	*
DWANE M WEAVER	4,500	0	*
MICHAEL L WEAVER	450	0	*
WESLEY R WEAVER	6,750	0	*
ARTHUR & RUTH WIENER	7,602	0	*
J EDWARD WILLIARD	44,250	0	*
KENNETH B WILSON	2,250	0	*
CLAUDINE W WOLFE	1,350	0	*
C EDWIN & JANET LYN WRIGHT	2,250	0	*
JOHN D WRIGHT	4,500	0	*
CRAIG YOSHIMOTO	4,500	0	*
JOSEPH ZIRBES	2,250	0	*
RUTH ZWEIGBAUM	5,644	0	*
	-----		
	1,615,776		

\* Less than 1%

- (1) MR. BOYNTON IS A FORMER DIRECTOR OF THE COMPANY.
- (2) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO SHARES HELD OF RECORD BY THE ENTITY, BRITAIN FAMILY TRUST, IS E. DOUGLAS BRITAIN.

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- (3) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO SHARES HELD OF RECORD BY THE ENTITY, CARLSON INVESTMENTS IS JIM CARLSON.
- (4) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO THE SHARES HELD OF RECORD BY THE ENTITY, CORNERSTONE PUBLIC RELATIONS GROUP, IS M. DARLENE HERBERT FELT.
- (5) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO THE SHARES HELD OF RECORD BY THE ENTITY, DELTA WESTERN COMPANY, IS GEORGE W MOFFITT.
- (6) MR. HAMILTON IS AN EMPLOYEE OF USA.
- (7) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO THE SHARES HELD OF RECORD BY THE ENTITY, HRUBALA ASSOCIATES, A PARTNERSHIP, IS DAVID R MOLUMPHY.
- (8) MS. JENKINS IS AN EMPLOYEE OF THE COMPANY.
- (9) MR. LURIO IS A DIRECTOR AND HIS LAW FIRM, LURIO & ASSOCIATES, P.C., IS GENERAL COUNSEL TO USA.
- (10) MR. MCGARRAH WAS A CONSULTANT TO THE COMPANY.
- (11) MEDIATECH CAPITAL IS THE SUCCESSOR TO TECHNOLOGY PARTNERS (HOLDINGS), LLC, THE COMPANY'S FORMER INVESTMENT BANKER. THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO SHARES HELD OF RECORD BY MEDIATECH CAPITAL IS PORTER BIBB.
- (12) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO THE SHARES HELD OF RECORD BY THE ENTITY, MOLUMPHY CAPITAL MGMT, IS DAVID R MOLUMPHY.
- (13) MS. STROUD IS AN EMPLOYEE OF USA.
- (14) MR. TURNER IS AN EMPLOYEE OF USA.
- (15) MR. VAN ALEN IS A DIRECTOR OF USA.
- (16) REPRESENTS 538,592 SHARES ISSUED AT THE RATE OF \$.20 PER SHARE AND 538,592 SHARES UNDERLYING WARRANTS TO PURCHASE OUR SHARES AT \$.20 PER SHARE AT ANY TIME THROUGH AUGUST 30, 2004. THESE SHARES AND WARRANTS TO PURCHASE UP TO 538,592 SHARES WERE ISSUED TO OUR SENIOR NOTEHOLDERS WHO ELECTED TO RECEIVE THESE SECURITIES IN LIEU OF CASH FOR THE DECEMBER 31, 2003 QUARTERLY INTEREST PAYMENTS AND FOR SHARES AND WARRANTS PERTAINING TO PRIOR QUARTERS NOT PREVIOUSLY REGISTERED. ALSO REPRESENTS AN ADDITIONAL 538,592 SHARES UNDERLYING WARRANTS THAT WERE ISSUED IN JUNE 2004 THAT ARE EXERCISABLE AT \$.20 PER SHARE AT ANY TIME PRIOR TO DECEMBER 31, 2004. WE HAVE AGREED TO REGISTER THESE SHARES FOR RESALE UNDER THE ACT AT OUR COST AND EXPENSE THROUGH JUNE 30, 2006. AS OF THE DATE OF THIS PROSPECTUS, NONE OF THESE WARRANTS HAVE BEEN EXERCISED.

### INTEREST WARRANTS

Common Stock

Beneficial Ownership  
after Offering

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Selling Shareholder -----	Offered Hereby(27) -----	Number -----	Percent -----
DONALD T AANESTAD	12,900	0	*
VIJAY ALIMACHANDANI	19,150	0	*
ALAN ALPERT	4,350	0	*
JOHN P AYERS	8,700	0	*
JOHN BACHICH	21,000	0	*
CHARLES F BELLAVIA	6,450	0	*
NANCY & EARL BESCH	8,700	0	*
GUNTER J BEYER	6,483	0	*
BENJAMIN LEE BIRD	8,700	0	*
KATHLYNE K BIRDSALL	1,090	0	*
DAVID C BLACKBURN	650	0	*
JOSEPH J BOLITSKY	58,000	0	*
EDWIN R BOYNTON (1)	28,275	0	*
JAMES R BOYNTON			
ACCT# OUP-957361-M2	3,600	0	*
DAVID G BRAY	1,554	0	*
DOUGLAS & CAROLYN			
BRITTAIN	13,933	0	*
BRITTAIN FAMILY TRUST (2)	5,800	0	*
GORDON L BRODINE	30,080	0	*
MICHAEL J BUDINETZ	9,688	0	*
VINCENT J CALVARESE	7,125	0	*
WILLIAM ACAMPBELL	1,350	0	*
RALPH A CARABASI MD	600	0	*
JULIE CARLSON	5,683	0	*
CARLSON INVESTMENTS (3)	11,400	0	*
GARY CELLA	1,360	0	*
MICHAEL J CHIORDI	8,700	0	*
GERALD E CLARK JR	6,090	0	*
ROBERT J CLARKE	8,697	0	*
DIANE CLOUTIER	52,200	0	*
ROGER D COFFEY	6,433	0	*
MARC A COHEN	50,025	0	*
Cornerstone Public Relations			
Grp, M Darlene Herbert Felt (4)	725	0	*
JOHANNA CRAVEN	1,068	0	*
JIM CROSS	2,900	0	*
WILLIAM R CROTHERS	5,440	0	*
DUDLEY R CROW	83	0	*
LORRAINE CROW	791	0	*
CLIFTON B CURRIN			
TRUST	9,000	0	*
DAMAR FAMILY TRUST			
DTD 7-1-03 (5)	80,273	0	*
BENJAMIN DEACON	1,978	0	*
DELTA WESTERN COMPANY (6)	32,625	0	*
DAVID DEMEDIO (7)	9,975	250,624	*
LOUIS E DI RENZO	4,350	0	*
DILIGENT FINANCE COMPANY LTD (8)	178,134	0	*
ANEES T DIN	12,150	0	*
LEO J DOLAN	17,400	0	*
ROBERT F DRESS	6,300	0	*
HOWARD EFFRON	8,407	0	*
BENTLY ELLIOTT	7,913	0	*
ELLSHAY LLC (9)	1,500	0	*
ANTHONY J FANELLI	13,540	0	*
HENRY J FIELDMAN	3,600	0	*
JOHN S FOSTER	59,450	0	*
HELEN K FOX	8,509	0	*



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SAMANTHA HARRIS FULMER	787	0	*
DOROTHY GALVIN	870	0	*
MARGARET R GEDDIS	2,175	0	*
ROBERT G GIDDENS	80,419	0	*
FREDERICK F GLOCKNER	870	0	*
WILLIAM M GOLDSTEIN	26,100	0	*
EDWARD HALDEMAN	6,000	0	*
PAULINE E HALDEMAN	6,000	0	*
IRA FBO ROBERT A HAMILTON (10)	3,486	100,156	*
JOHN E HAMILTON	2,610	100,891	*
ROBERT A HAMILTON (10)	7,917	0	*
PETER & DEBORAH HARRIS	350	0	*
GEORGE HARRUM (11)	417	0	*
JOHN HAY	3,600	0	*
HEALD FAMILY TRUST (12)	8,400	0	*
ANDREW B HEBENSTREIT	16,500	0	*
ADELE H HEPBURN (13)	22,679	6,661,945	1.62
JOYCE HODGES	4,350	0	*
MICHELLE HOLLENSHEAD	1,815	0	*
JAMES M HOLMWOOD	17,400	0	*
HRUBALA ASSOCIATES, A PARTNERSHIP (14)	15,117	0	*
GORDON F HUDSON	16,375	0	*
CHRISTINE F HUGHES	2,175	0	*
STEVE ILLES (15)	90,000	39,430,000	9.58
WENDY JENKINS (16)	8,900	20,500	*
WILLIAM ROBERT JOHNSTON	4,350	0	*
CHARLES T JONES	4,350	0	*
ROTH IRA FBO FRED KARAGOSIAN, PERSHING LLC AS CUSTODIAN	8,700	0	*
GLORIA & FRED KARN	870	0	*
MICHAEL KATCHUR	6,525	0	*
THOMAS A KATCHUR	37,500	0	*
MAUDE WOOD KENT	8,700	0	*
THOMAS & MAUDE WOOD KENT	8,700	0	*
ROBERT A KILGORE	43,500	0	*
SHIRLEY K KNERR	7,830	0	*
GREGORY S KOBUS	8,700	0	*
CHRISTINE C KOLLS	3,600	0	*
PAUL G LANNI	8,700	0	*
WARREN D LEWIS	11,075	0	*
LEXINGTON VENTURES INC (17)	3,800	0	*
H MATHER LIPPINCOTT JR	7,500	0	*
ANTHONY F LOPEZ	11,700	0	*
ROBERT LOZOWSKI	1,287	0	*
LSP PARTNERS (18)	50	0	*
DOUGLAS LURIO (19)	11,250	910,213	*
JAMES P MACCAIN	21,800	0	*
LEWIS F MADAN	1,740	0	*
KATHLEEN J MASON	75,400	0	*
CHARLES MAYER	3,780	0	*
BARRY N MCCABE	6,217	0	*
DUANE C MCCARTHY	870	0	*
G ELLARD MCCARTHY	4,350	0	*
JOHN F MCCORMICK	3,750	0	*
BOB MCGARRAH (20)	13,500	462,500	*
JOHN P MCGONIGLE	870	0	*
MARY C MCGONIGLE	870	0	*
MEDIATECH CAPITAL PARTNERS (21)	304,602	0	*
JAMES F MERRIMAN	42,568	0	*
EILEEN MILLER	3,480	0	*

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HARLEY & BROOK MILLER	17,584	0	*
WANDA S MOFFITT	2,700	0	*
GEORGE W MOFFITT JR	9,790	0	*
THOMAS MOLUMPHY	4,350	0	*
MOLUMPHY CAPITAL MGMT (22)	8,700	0	*
ROBERT H MONTGOMERY	23,200	0	*
MAC G MORRIS	4,350	0	*
JAMES H MOSIER	12,099	0	*
GARY NASH	480	0	*
ELIZABETH L NELSON	30,942	0	*
ROBERT F NEMETH	10,827	0	*
GREGG J NEWHUIS	58,148	0	*
JEFFREY M NEWHUIS	6,090	0	*
PATRICK NOLAN	19,139	0	*
PAUL NORDIN	2,900	0	*
GARY OAKLAND	4,850	0	*
GEORGE O'CONNELL	140,250	0	*
OLDOM & CO	4,500	0	*
ROBERT PADRICK	6,000	0	*

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ROBERT PADRICK TRUSTEE FBO KELLIE NICOLE PADRICK	1,500	0	*
ROBERT PADRICK TRUSTEE FOR ROBERT G PADRICK	34,500	0	*
MICHAEL A PARKER	2,900	0	*
NEIL L PARKER	3,775	0	*
RICHARD & LAURA PARKER	15,792	0	*
JOSEPH PELLEGRINO	133,333	0	*
ROBERT H POTTS	7,500	0	*
CHARLES W PROCTOR III	321	0	*
ERNEST L RANSOME III	4,350	0	*
HARRY RENNER IV	41,363	0	*
JOHN B RETTEW III	9,500	0	*
GARDINER ROGERS	9,570	0	*
MARIE G ROPER	4,350	0	*
GERALD B ROSENTHAL	9,000	0	*
KARL F RUGART	23,925	0	*
JOHN S RUPP	6,696	0	*
VALENTINA SAS	1,740	0	*
EDWARD L SCHOENHUT	17,400	0	*
WILLIAM F SCHOENHUT JR	22,183	0	*
STEPHEN SCHWARTZ	20,150	0	*
VICKI S SCIFERS	1,950	0	*
MARY L SCRANTON	5,075	0	*
NICHOLAS SELLERS	8,700	0	*
William W Sellers tr ua 11/20/00 William W Sellers Rev Trust (23)	21,683	0	*
AMY T SEYMOUR	33	0	*
RAYMOND K SHOTWELL	3,668	0	*
LEONARD H SICHEL JR	8,700	0	*
RICHARD SMITH	98,320	0	*
KATHY SMITLEY	2,696	0	*
MELVIN G SNYDER	1,950	0	*
TERRY W STANGLEIN	26,642	0	*
ELINOR STEINHILBER	8,700	0	*
MICHAEL & ELLEN STEIR	9,633	0	*
CPT ERIC W STETSON	4,350	0	*

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GERTRUDE T STEVENS	12,084	0	*
HOMER N STEWART	8,700	0	*
PRISCILLA STITT	3,450	0	*
VIVIAN K STROUD (24)	4,800	173,275	*
CLARK D & CAROLYN S STULL	8,610	0	*
GEORGE E SZYCHOSKI	87	0	*
MICHAEL W SZYCHOSKI	220	0	*
CONSTANTINE TEOFIL SZYMBORSKI	8,700	0	*
ALFRED & SUSAN THOMPSON	1,952	0	*
ANDREW THOMPSON	435	0	*
WILLIAM E THOROUGHGOOD	1,125	0	*
GUILLERMO M TORRES	3,000	0	*
JAMES TURNER (25)	26,467	0	*
ANTHONY B ULLMAN	3,600	0	*
WILLIAM L VAN ALEN JR (26)	14,533	1,838,505	*
C ANTHONY WAINWRIGHT	2,000	0	*
DAVID L WEAVER	780	0	*
DWANE M WEAVER	6,433	0	*
MICHAEL L WEAVER	870	0	*
WESLEY R WEAVER	9,999	0	*
ARTHUR L WHEELER	113,100	0	*
ARTHUR & RUTH WIENER	8,915	0	*
ARTHUR A WIENER	2,587	0	*
BERNARD WIENER	1,283	0	*
J EDWARD WILLIARD	52,000	0	*
KENNETH B WILSON	3,258	0	*
CLAUDINE W WOLFE	1,548	0	*
C EDWIN & JANET LYNN WRIGHT	3,108	0	*
JOHN D WRIGHT	7,525	0	*
CRAIG YOSHIMOTO	8,700	0	*
JOSEPH ZIRBES	2,250	0	*
RUTH ZWEIGBAUM	10,265	0	*
TOTAL	3,177,904	0	*

\* Less than 1%

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- (1) MR. BOYNTON IS A FORMER DIRECTOR OF THE COMPANY.
- (2) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO SHARES HELD OF RECORD BY THE ENTITY, BRITAIN FAMILY TRUST, IS E. DOUGLAS BRITAIN.
- (3) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO SHARES HELD OF RECORD BY THE ENTITY, CARLSON INVESTMENTS IS JIM CARLSON.
- (4) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO THE SHARES HELD OF RECORD BY THE ENTITY, CORNERSTONE PUBLIC RELATIONS GROUP, IS M. DARLENE HERBERT FELT.
- (5) THE NATURAL PERSONS WHO EXERCISE SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO THE SHARES HELD OF RECORD BY THE ENTITY, DAMAR FAMILY TRUST ARE MARLENE AND DAVID WEAVER.
- (6) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO THE SHARES HELD OF RECORD BY THE ENTITY, DELTA WESTERN COMPANY, IS GEORGE W MOFFITT.

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- (7) MR. DEMEDIO IS AN EMPLOYEE OF USA.
- (8) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO THE SHARES HELD OF RECORD BY THE ENTITY, DILLIGENT FINANCE, IS RAI HAMILTON.
- (9) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO THE SHARES HELD OF RECORD BY THE ENTITY, ELSHAY, LLC, IS MARK ERLICH.
- (10) MR. HAMILTON IS AN EMPLOYEE OF USA.
- (11) MR. HARRUM IS AN EMPLOYEE OF USA.
- (12) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO THE SHARES HELD OF RECORD BY THE ENTITY, HEALD FAMILY TRUST, IS JACK HEALD.
- (13) MS. HEPBURN IS AN EMPLOYEE OF THE COMPANY.
- (14) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO THE SHARES HELD OF RECORD BY THE ENTITY, HRUBALA ASSOCIATES, A PARTNERSHIP, IS DAVID R MOLUMPHY.
- (15) MR. ILLES IS A CONSULTANT TO THE COMPANY.
- (16) MS. JENKINS IS AN EMPLOYEE OF THE COMPANY.
- (17) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO THE SHARES HELD OF RECORD BY THE ENTITY, LEXINGTON VENTURES, IS LARRY GORDON.
- (18) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO THE SHARES HELD OF RECORD BY THE ENTITY, LSP PARTNERS, IS AARON LEHMAN.
- (19) MR. LURIO IS A DIRECTOR AND HIS LAW FIRM, LURIO & ASSOCIATES, P.C., IS GENERAL COUNSEL TO USA.
- (20) MR. MCGARRAH WAS A CONSULTANT TO THE COMPANY.
- (21) MEDIATECH CAPITAL PARTNERS IS THE SUCCESSOR TO TECHNOLOGY PARTNERS (HOLDINGS), LLC, THE COMPANY'S FORMER INVESTMENT BANKER. THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO SHARES HELD OF RECORD BY MEDIATECH CAPITAL PARTNERS IS PORTER BIBB.
- (22) THE NATURAL PERSON WHO EXERCISES SOLE AND/OR SHARED VOTING OR DISPOSITIVE POWERS WITH RESPECT TO THE SHARES HELD OF RECORD BY THE ENTITY, MOLUMPHY CAPITAL MGMT, IS DAVID R MOLUMPHY.
- (23) MR. SELLERS IS A DIRECTOR OF THE COMPANY.
- (24) MS. STROUD IS AN EMPLOYEE OF USA.
- (25) MR. TURNER IS AN EMPLOYEE OF USA.
- (26) MR. VAN ALEN IS A DIRECTOR OF USA.
- (27) REPRESENTS 3,177,904 SHARES UNDERLYING WARRANTS TO PURCHASE OUR SHARES AT \$.20 PER SHARE AT ANY TIME THROUGH DECEMBER 31, 2004. THESE WARRANTS WERE

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ISSUED TO OUR SENIOR NOTEHOLDERS WHO HAD PREVIOUSLY ELECTED TO RECEIVE WARRANTS IN LIEU OF CASH FOR INTEREST PAYMENTS ON ACCOUNT OF THE CALENDAR QUARTERS ENDED JUNE 30, 2002, SEPTEMBER 30, 2002 DECEMBER 31, 2002, MARCH 31, 2003, JUNE 30, 2003, AND SEPTEMBER 30, 2003. THE 538,592 WARRANTS ISSUED ON ACCOUNT OF THE NOTEHOLDERS WHO HAD PREVIOUSLY ELECTED TO RECEIVE WARRANTS IN LIEU OF CASH FOR INTEREST FOR THE DECEMBER 2003 QUARTER ARE REFLECTED IN THE PRIOR SELLING SHAREHOLDER'S TABLE. WE HAVE AGREED TO REGISTER THESE SHARES FOR RESALE UNDER THE ACT AT OUR COST AND EXPENSE THROUGH JUNE 30, 2006. AS OF THE DATE OF THIS PROSPECTUS, NONE OF THESE WARRANTS HAVE BEEN EXERCISED.

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### MARKET FOR COMMON STOCK

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

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

Fiscal

2002 ----	High ----	Low ----
First Quarter (through September 30, 2001)	\$ 1.05	\$ 0.60
Second Quarter (through December 31, 2001)	\$ 0.74	\$ 0.34
Third Quarter (through March 31, 2002)	\$ 0.80	\$ 0.39
Fourth Quarter (through June 30, 2002)	\$ 0.41	\$ 0.20
2003 ----	High ----	Low ----
First Quarter (through September 30, 2002)	\$ 0.39	\$ 0.14
Second Quarter (through December 31, 2002)	\$ 0.23	\$ 0.13
Third Quarter (through March 31, 2003)	\$ 0.22	\$ 0.16
Fourth Quarter (through June 30, 2003)	\$ 0.64	\$ 0.17
2004 ----	High ----	Low ----
First Quarter (through September 30, 2003)	\$ 0.54	\$ 0.34
Second Quarter (through December 31, 2003)	\$ 0.42	\$ 0.12
Third Quarter (through March 31, 2004)	\$ 0.29	\$ 0.15

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

At May 31, 2004, there were 2,134,232 shares of Common Stock issuable upon exercise of outstanding options. The following table shows the number of options outstanding and their exercise price:

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Options Outstanding -----	Option Exercise Price -----
1,970,565	\$ .165

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	125,000	\$1.00
	38,667	\$2.00
-----		
Total	2,134,232	
=====		

All of the aforesaid options have been issued to our employees, former Stitch option holders or consultants.

As of May 31, 2004, a total of 18,203,545 warrants were outstanding with exercise prices ranging from \$.07 per share to \$1.25 per share.

As of May 31, 2004, there were 522,742 shares of Common Stock issuable upon conversion of the outstanding Preferred Stock and 667,718 shares issuable upon the conversion of cumulative preferred dividends.

As of May 31, 2004 there are \$10,080,937 face value of Senior Notes outstanding, which are convertible into 49,276,805 shares of Common Stock.

On May 31, 2004 there were 1,520 record holders of the Common Stock and 544 record holders of the Preferred Stock.

The holders of the Common Stock are entitled to receive such dividends as the Board of Directors of the Company may from time to time declare out of funds legally available for payment of dividends. Through the date hereof, no cash dividends have been declared on the Company's securities. No dividend may be paid on the Common Stock until all accumulated and unpaid dividends on the Preferred Stock have been paid. As of May 31, 2004, such accumulated unpaid dividends amount to \$6,677,180.

During fiscal year 2003, certain holders of the Company's Preferred Stock converted 4,790 shares into 4,790 shares of Common Stock. Certain of these shareholders also converted cumulative preferred dividends of \$56,050 into 5,605 shares of Common Stock.

### DESCRIPTION OF SECURITIES

#### General

We are authorized to issue up to 475,000,000 shares of common stock, no par value, and 1,800,000 shares of undesignated preferred stock. As of the date hereof, 900,000 preferred shares have been designated as series A convertible preferred stock, no par value. As of May 31, 2004, there were 339,453,012 shares of common stock issued and outstanding and 522,742 shares of series A preferred stock issued and outstanding which are convertible into 522,742 shares of common stock. Through May 31, 2004, a total of 588,408 shares of preferred stock have been converted into 664,852 shares of common stock and \$2,684,444 of accrued and unpaid dividends thereon have been converted into 288,521 shares of common stock.

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#### Common Stock

The holder of each share of common stock:

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- o is entitled to one vote on all matters submitted to a vote of the shareholders of USA, including the election of directors. There is no cumulative voting for directors;
- o does not have any preemptive rights to subscribe for or purchase shares, obligations, warrants, or other securities of USA; and
- o is entitled to receive such dividends as the Board of Directors may from time to time declare out of funds legally available for payment of dividends.

No dividend may be paid on the common stock until all accumulated and unpaid dividends on the series A preferred stock have been paid. Upon any liquidation, dissolution or winding up of USA, holders of shares of common stock are entitled to receive pro rata all of the assets of USA available for distribution, subject to the liquidation preference of the series A preferred stock of \$10.00 per share and any unpaid and accumulated dividends on the series A preferred stock.

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### Series A Convertible Preferred Stock

The holders of shares of Series A preferred stock:

- o have the number of votes per share equal to the number of shares of common stock into which each such share is convertible (i.e., 1 share of series A preferred stock equals 1 vote);
- o are entitled to vote on all matters submitted to the vote of the shareholders of USA, including the election of directors; and
- o are entitled to an annual cumulative cash dividend of \$1.50 per annum, payable when, as and if declared by the Board of Directors.

The record dates for payment of dividends on the Series A Preferred Stock are February 1 and August 1 of each year. Any and all accumulated and unpaid cash dividends on the Series A Preferred Stock must be declared and paid prior to the declaration and payment of any dividends on the Common Stock. Any unpaid and accumulated dividends will not bear interest. As of May 31, 2004 the accumulated and unpaid dividends were \$6,677,180.

Each share of Series A Preferred Stock is convertible at any time into 1 share of fully issued and non-assessable Common Stock. Accrued and unpaid dividends earned on shares of Series A Preferred Stock being converted into Common Stock are also convertible into Common Stock at the rate \$10.00 per share of Common Stock at the time of conversion and whether or not such dividends have then been declared by USA. As of May 31, 2004 a total of 588,408 shares of series A Preferred Stock have been converted into common stock and accrued and unpaid dividends thereon have been converted into 288,521 shares of Common Stock. The conversion rate of the Series A Preferred Stock (and any accrued and unpaid dividends thereon) will be equitably adjusted for stock splits, stock combinations, recapitalizations, and in connection with certain other issuances of common stock by USA. Upon any liquidation, dissolution, or winding-up of USA, the holders of Series A Preferred Stock are entitled to receive a distribution in preference to the Common Stock in the amount of \$10.00 per share plus any accumulated and unpaid dividends.

We have the right, at any time, to redeem all or any part of the issued and outstanding series A preferred stock for the sum of \$11.00 per share plus any and all unpaid and accumulated dividends thereon. Upon notice by USA of such

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call, the holders of the series A preferred stock so called will have the opportunity to convert their shares and any unpaid and accumulated dividends thereon into shares of common stock. The \$11.00 per share figure was the redemption price approved by the Directors and shareholders of USA at the time the series A preferred stock was created and first issued. We currently have no plans to redeem the preferred stock.

### 12% Senior Notes

As of May 31, 2004, we had outstanding \$3,404,490 of Senior Notes due December 31, 2007, \$3,213,500 of Senior Notes due December 31, 2006, \$3,011,791 of Senior Notes due December 31, 2005 and \$451,152 of Senior Notes due December 31, 2004. The principal amount of each senior note which is not voluntarily converted shall be payable on the maturity date thereof, at which time any unpaid and accrued interest shall also become due. Interest shall accrue at the rate of 12% per annum from and after the date of issuance and shall be payable quarterly in arrears on December 31, March 31, June 30, and September 30 of each year until maturity. The senior notes are senior to all existing equity securities of USA, including the series A preferred stock.

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Of the Senior Notes due December 31, 2003, a total of \$3,823,000 were purchased through the exchange of \$3,823,000 of the old senior notes previously due December 31, 2001. The principal amount of these notes is convertible at any time into shares of common stock at the rate of \$1.25 per share. The interest paid on these notes is also convertible into shares of common stock at the rate of \$1.00 per share. For the quarters ended September 31, 2001 and December 31, 2001, the conversion rate relating to the interest payments was reduced to \$.50 per share and for the quarter ended March 31, 2002 to \$.40 per share and for the quarters ended June 30, 2002, September 30, 2002, December 31, 2002, March 31, 2003, June 30, 2003, and September 30, 2003, to \$.20 per share together with one warrant at \$.20 per share for each share issued with an exercise termination date of August 30, 2004. We have agreed to use our best efforts to register these shares as well as the shares underlying the warrants for resale under the Act. These shares and shares underlying the warrants issued by us on account of the December 31, 2003 quarter are included in this prospectus. In March 2003, each holder of these senior notes was granted the right to have the conversion rate reduced to \$.20 in exchange for extending the maturity date for three additional years or until December 31, 2006. A total of \$5,024,000 of these notes have been extended to December 31, 2006. In connection with any extensions other than the reduction of the conversion rate, there were no other payments or benefits exchanged between USA and the noteholders.

The principal amount of each Senior Note due December 31, 2004 is convertible at any time into shares of Common Stock at the rate of \$.40 per share. In January 2002, the Company agreed to provide the option to each holder of these senior notes to elect to accept shares in lieu of receiving cash in satisfaction of the interest payments otherwise due to them on account of the last three quarters of fiscal 2002. The conversion rate for this interest payment due for the quarter ended March 31, 2002 was \$.40 per share. The Company continued this option at \$.20 per share for the quarters ended June 30, 2002, September 30, 2002, December 31, 2002, March 31, 2003, June 30, 2003, September 30, 2003, and December 31, 2003 together with one warrant at \$.20 for each share issued with an exercise termination date of August 30, 2004. We have agreed to register these shares as well as the shares underlying the warrants for resale under the Act. These shares and shares underlying the warrants issued by us on account of the December 31, 2003 quarter are included in this prospectus. In March 2003, each holder of these senior notes was granted the right to have the conversion rate reduced to \$.20 in exchange for extending the maturity date for three



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additional years or until December 31, 2007. The noteholder was required to make the election on or prior to December 31, 2003. A total of \$4,191,350 of these notes have been extended to December 31, 2007 and are convertible at \$.20 per share. In connection with any extensions other than the reduction of the conversion rate, there were no other payments or benefits exchanged between USA and the noteholders.

The principal amount of each Senior Note due December 31, 2005 is convertible at any time into shares of Common Stock at the rate of \$.20 per share. The Company agreed to provide the option to each holder of these senior notes to elect to accept shares in lieu of receiving cash in satisfaction of the interest payments otherwise due to them on account of the last quarter of fiscal 2002 at the rate of \$.20 per share. The Company continued this option at \$.20 per share for the quarters ended September 30, 2002, December 31, 2002, March 31, 2003, June 30, 2003, September 30, 2003, and December 31, 2003 together with one warrant at \$.20 for each share issued with an exercise termination date of August 30, 2004. We have agreed to register these shares as well as the shares underlying the warrants for resale under the Act. These shares and shares underlying the warrants issued by us on account of the December 31, 2003 quarter are included in this prospectus.

During June 2004, we issued a warrant to purchase one share for each existing warrant then held by the holders of the senior notes who had elected to receive the warrant in lieu of a cash interest payment. The shares underlying these warrants are included in this prospectus.

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The indebtedness evidenced in the Senior Note is subordinated to the prior payment when due of the principal of, premium, if any, and interest on all "Senior Indebtedness", as defined herein, of USA as follows: Upon any distribution of its assets in a liquidation or dissolution of USA, or in bankruptcy, reorganization, insolvency, receivership or similar proceedings relating to USA, the Lender shall not be entitled to receive payment until the holders of Senior Indebtedness are paid in full. Until a payment default occurs with respect to any Senior Indebtedness, all payments of principal and interest due to Lender under the senior note shall be made in accordance with this senior note. Upon the occurrence of any payment default with respect to any Senior Indebtedness then, upon written notice thereof to USA and Lender by any holder of such Senior Indebtedness or its representative, no payments of principal or interest on the senior note shall be made by USA until such payment default has been cured to the satisfaction of the holder of such Senior Indebtedness or waived by such holder, provided, however, that if during the 180 day period following such default, the holder of Senior Indebtedness has not accelerated its loan, commenced foreclosure proceedings or otherwise undertaken to act on such default, then USA shall be required to continue making payments under the senior note, including any which had not been paid during such 180 day period. In the event that any institutional lender to USA at any time so requires, the Lender shall execute, upon request of USA, any intercreditor or subordination agreement(s) with any such institutional lender on terms not materially more adverse to the Lender than the subordination terms contained in this senior note.

The term "Senior Indebtedness" shall mean (a) all direct or indirect, contingent or certain indebtedness of any type, kind or nature (present or future) created, incurred or assumed by USA with respect to any future bank or other financial institutional indebtedness of USA or (b) any indebtedness created, incurred, or assumed, by USA secured by a lien on any of our assets.

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Notwithstanding anything herein to the contrary, Senior Indebtedness does not include:

- o unsecured accounts payable to trade creditors of USA incurred in the ordinary course of business;
- o any debt owed by USA to any officer, director or stockholder of USA;
- o any obligation of Borrower issued or contracted for as payment in consideration of the purchase by USA of the capital stock or substantially all of the assets of another person or in consideration for the merger or consolidation with respect to which USA was a party;
- o any operating lease obligations of USA;
- o any other indebtedness which by its terms is subordinated to the senior note; or
- o any "other indebtedness" which is subordinated to all indebtedness to which the senior note is subordinated in substantially like terms as the senior note; which such "other indebtedness" shall be treated as equal with the indebtedness evidenced by the senior note.

### Common Stock Purchase Warrants

As of May 31, 2004, there are outstanding warrants to purchase 7,142,858 shares at \$.07 per share, warrants to purchase 5,000,000 shares at \$.10 per share, warrants to purchase 750,000 shares at \$.067 per share, warrants to purchase 3,654,859 shares at \$.20 per share, warrants to purchase 1,200,000 shares at \$.91 per share, warrants to purchase 377,927 shares at \$1.00 per share, warrants to purchase 2,901 shares at \$1.03 per share, and warrants to purchase 75,000 shares at \$1.25 per share.

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

The warrants do not confer upon the holder any voting or any other rights of a shareholder of USA. Upon notice to the warrant holders, USA has the right, at any time and from time to time, to reduce the exercise price or to extend the warrant termination date.

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### Shares Eligible for Future Sale

Of the 339,453,012 shares of common stock issued and outstanding on May 31, 2004, a total of approximately 31,771,925 are restricted securities which are not currently eligible for sale under Rule 144 promulgated under the Act. As of

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May 31, 2004, there were 522,742 shares of preferred stock issued and outstanding, all of which are freely transferable without further registration under the Act (other than shares held by "affiliates" of USA).

The shares of preferred stock issued and outstanding as of the date hereof are convertible into 522,742 shares of common stock all of which would be fully transferable without further registration under the Act (other than shares held by "affiliates" of USA).

Shares of our common stock which are not freely tradeable under the Act are known as "restricted securities" and cannot be resold without registration under the Act or pursuant to Rule 144 promulgated thereunder.

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

Limitation of Liability; Indemnification

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As permitted by the Pennsylvania Business Corporation Law of 1988 ("BCL"), our By-laws provide that Directors will not be personally liable, as such, for monetary damages for any action taken unless the Director has breached or failed to perform the duties of a Director under the BCL and the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness. This limitation of personal liability does not apply to any responsibility or liability pursuant to any criminal statute, or any liability for the payment of taxes pursuant to Federal, State or local law. The By-laws also include provisions for indemnification of our Directors and officers to the fullest extent permitted by the BCL. Insofar as indemnification for liabilities arising under the Act may be permitted to Directors, officers and controlling persons of USA pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

Transfer Agent and Registrar

The Transfer Agent and Registrar for our stock and warrants is American Stock Transfer & Trust Company, 40 Wall Street, New York, New York 10005.

### PLAN OF DISTRIBUTION

The selling shareholders are free to offer and sell the common shares at such times, in such manner and at such prices as the selling shareholders may determine. The types of transactions in which the common shares are sold may include transactions in the over-the-counter market (including block transactions), negotiated transactions, the settlement of short sales of common shares, or a combination of such methods of sale. The sales will be at market

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prices prevailing at the time of sale or at negotiated prices. Such transactions may or may not involve brokers or dealers.

The selling shareholders may effect such transactions by selling common stock directly to purchasers or through broker-dealers, which may act as agents or principals. Such broker-dealers may receive compensation in the form of discounts, concessions, or commissions from the selling shareholders. They may also receive compensation from the purchasers of common shares for whom such broker-dealers may act as agents or to whom they sell as principal, or both (which compensation as to a particular broker-dealer might be in excess of customary commissions).

The selling shareholders and any broker-dealers or agents that are involved in selling the shares may also be deemed to be "underwriters" within the meaning of the Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and profit on the resale of the shares purchased by them may be deemed to be underwriting discounts under the Act.

The selling shareholders also may resell all or a portion of the common shares in open market transactions in reliance upon Rule 144 under the Act, provided they meet the criteria and conform to the requirements of such Rule. We have agreed to bear all the expenses (other than selling commissions) in connection with the registration and sale of the common stock covered by this prospectus. In some circumstances, we have agreed to indemnify the selling shareholders against certain losses and liabilities, including liabilities under the Act.

We have advised the selling shareholders that while they are engaged in a distribution of the shares included in this prospectus they are required to comply with Regulation M promulgated under the Securities Exchange Act of 1934, as amended. With certain exceptions, Regulation M precludes the selling shareholders, any affiliated purchasers, and any broker-dealer or other person who participates in such distribution from bidding for or purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of the distribution until the entire distribution is complete.

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### LEGAL MATTERS

The validity of the common stock has been passed upon for us by Lurio & Associates, P.C., Philadelphia, Pennsylvania 19103.

### EXPERTS

The consolidated financial statements of USA Technologies, Inc. at June 30, 2003 and 2002, and for each of the two years in the period ended June 30, 2003 appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon (which contains an explanatory paragraph describing conditions that raise substantial doubt about the Company's ability to continue as a going concern as described in Note 2 to the consolidated financial statements) appearing elsewhere herein, and are included in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The financial statements of Bayview Technology Group, LLC as of December 31,

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2002 and 2001 and for each of the periods in the two years ended December 31, 2002 included in this Prospectus and in the Registration Statement have been audited by Anton Collins Mitchell LLP, independent registered public accounting firm, as set forth in their report thereon (which contains an explanatory paragraph regarding the Company's ability to continue as a going concern) appearing elsewhere herein and are included upon the authority of said firms as experts in auditing and accounting.

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USA Technologies, Inc.

Consolidated Financial Statements

Years ended June 30, 2003 and 2002

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### Report of Independent Registered Public Accounting Firm

USA Technologies, Inc.  
Board of Directors and Shareholders

We have audited the accompanying consolidated balance sheets of USA Technologies, Inc. as of June 30, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the two years in the period ended June 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in

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all material respects, the consolidated financial position of USA Technologies, Inc. at June 30, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the two years in the period ended June 30, 2003, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming USA Technologies, Inc. will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred recurring operating losses and has a working capital deficiency at June 30, 2003. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania  
September 12, 2003,  
except for Note 17, as to which  
the date is September 30, 2003

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USA Technologies, Inc.

Consolidated Balance Sheets

		June 30
		2003
		-----
Assets		
Current assets:		
Cash and cash equivalents	\$	2,384,455
Accounts receivable, less allowance for uncollectible accounts of \$167,000 (unaudited) at March 31, 2004 and \$65,000 and \$37,000 in 2003 and 2002, respectively		414,796
Other receivable		--
Inventory		457,900
Prepaid expenses and other current assets		201,383
Subscriptions receivable		1,013,400
Investment		904,049
Assets held for sale		--
		-----
Total current assets		5,375,983
Property and equipment, net		943,784
Software development costs, at cost, less accumulated amortization of \$5,326,187 (unaudited) at March 31, 2004 and \$4,327,526 and \$2,995,979 in 2003 and 2002, respectively		998,660
Goodwill		7,945,580
Intangibles, net		2,591,500
Other assets		37,174
		-----
Total assets	\$	17,892,681
		=====

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Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$	2,266,156
Accrued expenses		2,720,743
Current obligations under long-term debt		830,674
Convertible Senior Notes		349,942
Deposits		--
		-----
Total current liabilities		6,167,515
Convertible Senior Notes, less current portion		7,808,469
Long-term debt, less current portion		224,614
Convertible debenture		--
		-----
Total liabilities		14,200,598
Shareholders' equity:		
Preferred Stock, no par value:		
Authorized shares--1,800,000		
Series A Convertible Preferred--Authorized shares - 900,000		
Issued and outstanding shares--523,442 (unaudited) at March		
31, 2004 and 524,492 and 529,282 at June 30, 2003 and 2002,		
respectively (liquidation preference of \$11,920,670 (unaudited)		
at March 31, 2004 and \$11,158,027 at June 30, 2003)		
		3,715,246
Common Stock, no par value:		
Authorized shares--475,000,000 at March 31, 2004 and		
400,000,000 and 150,000,000 at June 30, 2003 and 2002, respectively		
Issued and outstanding shares--300,151,941 (unaudited) at March		
31, 2004 and 218,741,042 and 65,339,188 at		
June 30, 2003 and 2002, respectively		
		78,790,405
Subscriptions receivable		--
Accumulated other comprehensive income		--
Accumulated deficit		(78,813,568)
		-----
Total shareholders' equity		3,692,083
		-----
Total liabilities and shareholders' equity	\$	17,892,681
		=====

See accompanying notes.

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USA Technologies, Inc.

Consolidated Statements of Operations

	Year ended June 30	
	2003	2002
	-----	
Revenues:		
Equipment sales	\$ 1,034,427	\$ 795,938
License and transaction fees	1,373,573	778,906
Product sales and other	445,068	107,857

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Total revenues	2,853,068	1,682,701
Cost of sales (including amortization of software development costs)	2,971,443	4,062,901
Gross profit	(118,375)	(2,380,200)
Operating expenses:		
General and administrative	7,194,684	7,868,064
Compensation	4,973,210	4,654,662
Depreciation and amortization	1,251,716	440,238
Loss on debt modification	1,521,654	--
Total operating expenses	14,941,264	12,962,964
Operating loss	(15,059,639)	(15,343,164)
Other income (expense):		
Interest income	18,691	15,791
Gain (loss) on investment	(1,945,951)	--
Gain on termination of contract	--	--
Interest expense:		
Coupon or stated rate	(1,163,192)	(966,974)
Non-cash interest and amortization of debt discount	(3,815,408)	(1,513,118)
Less: amount capitalized	--	492,658
Total interest expense	(4,978,600)	(1,987,434)
Total other income (expense)	(6,905,860)	(1,971,643)
Net loss	(21,965,499)	(17,314,807)
Cumulative preferred dividends	(793,586)	(822,561)
Loss applicable to common shares	\$ (22,759,085)	\$ (18,137,368)
Loss per common share (basic and diluted)	\$ (0.20)	\$ (0.50)
Weighted average number of common shares outstanding (basic and diluted)	111,790,358	35,994,157

See accompanying notes.

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USA Technologies, Inc.

Consolidated Statements of Shareholders' Equity  
(Restated)

Series A Convertible Preferred Stock	Common Stock	Deferred Compensation	Subscri Recei
-----			



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Balance, June 30, 2001	\$ 3,933,253	\$32,977,922	\$ (103,000)	
Conversion of 26,002 shares of Preferred Stock to 26,002 shares of Common Stock	(184,095)	184,095	-	
Conversion of \$268,140 of cumulative preferred dividends into 26,814 shares of Common Stock at \$10.00 per share	-	268,140	-	
Issuance of 2,784,134 shares of Common Stock for professional services	-	1,330,944	-	
Issuance of 500,000 Common Stock Warrants for professional services	-	115,000	-	
Issuance of 2,340,000 shares of Common Stock for Officer compensation	-	981,000	-	
Issuance of 200,000 Common Stock Options for professional services	-	66,000	-	
Issuance of 498,000 shares of Common Stock from the conversion of \$622,500 of the 2000 12% Senior Notes at \$1.25 per share	-	622,500	-	
Exercise of 2,333,529 Common Stock Warrants at exercise prices ranging from \$0.10 to \$0.50 per share, net of offering costs	-	336,921	-	
Issuance of 333,678 shares of Common Stock from the conversion of \$82,000 of a 9-3/4% Convertible Debenture, and the related exercise of Common Stock Warrants at varying prices per share to purchase 3,336,780 shares of Common Stock, net of offering costs	-	886,250	-	
Issuance of 8,772,724 shares of Common Stock in connection with Private Placement Offerings at varying offering prices, net of offering costs of \$343,944	-	4,747,223	-	(149,7
Issuance of 674,431 shares of Common Stock in lieu of cash payments for interest on the Convertible Senior Notes and the related issuance of 303,829 Common Stock Warrants	-	301,856	-	
Debt discount relating to beneficial conversion feature on the 2001 12% Senior Notes and on the \$325,000 9-3/4% Convertible Debenture	-	4,067,813	-	
Issuance of Common Stock in connection with Stitch acquisition	-	8,710,816	-	
Issuance of Common Stock Options and Common Stock Warrants in connection with Stitch acquisition	-	963,583	-	
Compensation expense related to deferred stock awards	-	-	103,000	
Other	-	28,440	-	
Net loss	-	-	-	
<hr/>				
Balance, June 30, 2002	3,749,158	56,588,503	-	(149,7

See accompanying notes.

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### Consolidated Statements of Shareholders' Equity

	Series A Convertible Preferred Stock	Common Stock	Subscriptions Receivable	A
Conversion of 4,790 shares of Preferred Stock to 4,790 shares of Common Stock	(33,912)	33,912	-	-
Conversion of \$56,050 of cumulative preferred dividends into 5,605 shares of Common Stock at \$10.00 per share	-	56,050	-	-
Issuance of 5,749,442 shares of Common Stock for professional services	-	1,245,631	149,750	-
Exercise of 17,686,489 Common Stock Warrants at \$0.10 per share	-	1,768,650	-	-
Issuance of 5,727,383 shares of Common Stock from the conversion of 12% Senior Notes	-	1,145,442	-	-
Issuance off 2,467,225 shares of Common Stock from the conversion of \$243,000 of 9-3/4% debentures, and the related exercise of Common Stock Warrants at varying prices per share to purchase 7,206,893 shares of Common Stock, net of offering costs	-	873,000	-	-
Issuance of 89,207,511 shares of Common Stock in connection with various Private Placement Offerings at varying prices per share	-	8,750,058	-	-
Issuance of 2,315,000 shares of Common Stock in lieu of cash payments for interest on the Convertible Senior Notes and the issuance of 2,315,000 Common Stock Warrants	-	860,250	-	-
Debt Discount relating to beneficial conversion feature on the various 12% Senior Notes	-	2,947,130	-	-
Issuance of 8,031,516 shares of Common Stock in connection with the issuance of 12% Senior Notes	-	1,664,819	-	-
Issuance of 15,000,000 shares of Common Stock for the investment in Jubilee	-	2,850,000	-	-
Other	-	6,960	-	-
Net loss	-	-	-	-
Balance, June 30, 2003	\$ 3,715,246	\$78,790,405	\$ -	\$ -

See accompanying notes.

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Series A

Accumul

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	Convertible Preferred Stock	Common Stock	Accumulated Deficit	Other Comprehen Income
Balance, June 30, 2003	\$ 3,715,246	\$ 78,790,405	\$(78,813,568)	\$
Issuance of 1,050 shares of Common Stock from the conversion of 1,050 shares of Preferred Stock (Unaudited)	(7,434)	7,434	--	
Issuance of 1,337 shares of Common Stock from the conversion of cumulative preferred dividends at \$10.00 per share (Unaudited)	--	13,370	(13,370)	
Exercise of 12,053,218 Common Stock Warrants and Options (Unaudited)	--	1,013,436	--	
Issuance of 10,743,154 shares of Common Stock from the conversion of 12% Senior Notes (Unaudited)	--	2,148,630	--	
Issuance of 1,443,070 shares of Common Stock in exchange for salaries and professional services (Unaudited)	--	387,155	--	
Issuance of 10,500,000 shares of Common Stock to executive in connection with employment agreement (Unaudited)	--	4,620,000	--	
Issuance of 25,437,036 shares of Common Stock from various private placement offerings at varying prices per share (Unaudited)	--	5,517,754	--	
Issuance of 1,062,034 shares of Common Stock and related Common Stock Warrants in lieu of cash payment for interest on the 12% Senior Notes (Unaudited)	--	478,646	--	
Debt discount relating to beneficial conversion feature on 12% Senior Notes (Unaudited)	--	1,981,007	--	
Issuance of 20,170,000 shares of Common Stock in connection with the Bayview acquisition (Unaudited)	--	9,278,200	--	
Net loss (Unaudited)	--	--	(16,424,278)	
Unrealized gain on investment (Unaudited)	--	--	--	51,8
Total comprehensive loss (Unaudited)	--	--	--	
Balance, March 31, 2004 (Unaudited)	\$ 3,707,812	\$104,236,037	\$(95,251,216)	\$ 51,8

See accompanying notes.

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## USA Technologies, Inc. Consolidated Statements of Cash Flows

	Year ended June 30		Nin
	2003	2002	2004
	-----	-----	-----
		(Restated)	
Operating activities:			
Net loss	\$ (21,965,499)	\$ (17,314,807)	\$ (16,424,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Charges incurred in connection with the issuance of Common Stock, Common Stock Warrants and Senior Notes	2,573,301	5,532,037	4,950,000
Interest expense on the Senior Notes paid through the issuance of Common Stock	860,250	301,856	478,000
Interest amortization related to Senior Notes and Convertible Debentures	2,955,158	1,513,699	2,642,000
Depreciation	1,119,536	403,738	373,000
Amortization	1,623,547	3,032,479	1,898,000
Gain on sale of investment	--	--	(603,000)
Loss on investment	1,945,951	--	--
Gain on contract settlement	--	--	(509,000)
Loss on debt modification	1,521,654	--	318,000
Loss on property and equipment	--	195,722	--
Changes in operating assets and liabilities:			
Accounts receivable	(74,503)	(232,653)	(907,000)
Other receivable	--	--	674,000
Inventory	419,914	(36,642)	(967,000)
Prepaid expenses, deposits and other assets	(38,325)	774,845	(68,000)
Accounts payable	(759,337)	(259,627)	746,000
Accrued expenses	589,454	(44,413)	(256,000)
Net cash used in operating activities	(9,228,899)	(6,133,766)	(7,653,000)
Investing activities:			
Purchase of property and equipment	(186,895)	(102,917)	(273,000)
Cash acquired in connection with Stitch acquisition, net of financing costs	--	2,278,229	--
Cash paid in connection with Bayview acquisition	--	--	(727,000)
Increase in software development costs	--	(2,238,771)	--
Cash received from sale of property and equipment	--	--	35,000
Cash received for sale of Jubilee shares	--	--	709,000
Net cash used in investing activities	(186,895)	(63,459)	(257,000)
Financing activities:			
Net proceeds from the issuance of Common Stock and the exercise of Common Stock Purchase Warrants and Options	9,930,879	3,912,765	6,531,000
Net proceeds from issuance of Senior Notes and Convertible Debenture	1,833,841	4,269,223	--
Repayment of long-term debt	(557,441)	(2,533,363)	(558,000)
Collection of subscriptions receivable	35,000	29,000	1,013,000
Proceeds received from deposits for future financings	--	500,000	--
Repayment of the Senior Notes	--	(240,000)	--

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Net cash provided by financing activities	11,242,279	5,937,625	6,986
Net increase (decrease) in cash and cash equivalents	1,826,485	(259,600)	(925)
Cash and cash equivalents at beginning of period	557,970	817,570	2,384
Cash and cash equivalents at end of period	\$ 2,384,455	\$ 557,970	\$ 1,459
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 1,479,984	\$ 603,312	\$ 685
Conversion of Convertible Preferred Stock to Common Stock	\$ 33,912	\$ 184,095	\$ 7
Conversion of Cumulative Preferred Dividends to Common Stock	\$ 56,050	\$ 268,140	\$ 13
Subscriptions receivable	\$ 1,013,400	\$ 35,000	\$
Conversion of Senior Notes and Debenture to Common Stock	\$ 1,388,442	\$ 622,500	\$ 2,148
Purchase of investment in Jubilee through the issuance of Common Stock	\$ 2,850,000	\$ --	\$
Beneficial conversion feature related to Senior Notes and Convertible Debenture	\$ 2,947,130	\$ 4,067,813	\$ 1,981
Issuance of Common Stock in connection with Senior Note Conversions	\$ 1,664,819	\$ --	\$
Issuance of Common Stock, Common Stock Options and Warrants in connection with Stitch acquisition	\$ --	\$ 9,674,399	
Capital lease obligations incurred	\$ --	\$ 62,984	\$
Prepaid stock expenses through issuance of Common Stock	\$ --	\$ --	\$ 56
Issuance of Common Stock in connection with the Bayview acquisition	\$ --	\$ --	\$ 9,278

See accompanying notes.

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USA Technologies, Inc.

Notes to Consolidated Financial Statements

June 30, 2003

1. Business

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USA Technologies, Inc., a Pennsylvania corporation (the Company), was incorporated on January 16, 1992. The Company provides unattended cashless payment/control systems and associated network and services for the copy, fax, debit card, smart card personal computer, laundry, and vending industries. The Company's devices make available credit and debit card and other payment methods in connection with the sale of a variety of products and services. The Company's customers are principally located in the United States and are comprised of hotels, chains, consumer package goods companies, information technology and vending operators.

The Company offers the Business Express(R) and Business Express(R) Limited Service (LSS) principally to the hospitality industry. The Business Express(R) and Business Express(R) Limited Service (LSS) combines the Company's business applications for computers, copiers and facsimile machines into a business center unit. The Company has developed its next generation of cashless control/payment systems (e-Port(TM)), which includes capabilities for interactive multimedia and e-commerce, acceptance of other forms of electronic payments and remote monitoring of host machine data and is being marketed and sold to operators, distributors and original equipment manufacturers (OEM) primarily in the vending industry.

### 2. Accounting Policies

#### Basis of Financial Statement Presentation

The financial statements of the Company have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments to recorded asset values that might be necessary should the Company be unable to continue in existence. The Company has incurred recurring operating losses of \$22 million and \$17.3 million during each of the fiscal years ended June 30, 2003 and 2002, respectively, and a loss of \$16.4 million (unaudited) during the nine months ended March 31, 2004. Cumulative losses from its inception through June 30, 2003 amount to approximately \$75.2 million and the Company had a working capital deficiency at June 30, 2003. Cumulative losses through March 31, 2004 amounted to approximately \$91.6 million (unaudited). Losses have continued through March 2004 and are expected to continue during fiscal year 2004. The Company's ability to meet its future obligations is dependent upon the success of its products in the marketplace. Until the Company's products can generate sufficient operating revenues, the Company will be required to raise capital to meet its cash flow requirements. These factors raise substantial doubt about the Company's ability

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USA Technologies Inc.

#### Notes to Consolidated Financial Statements

### 2. Accounting Policies (continued)

to continue as a going concern. Management believes that actions presently being taken will allow for the Company to continue as a going concern. Such actions include the generation of revenues from operations, additional private placement offerings (Note 17) and continued efforts to reduce costs.

#### Interim Financial Information

The consolidated financial statements and disclosures included herein for the three and nine months ended March 31, 2004 and 2003 are unaudited. These

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financial statements and disclosures have been prepared by the Company in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine month period ended March 31, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2004.

### Restatement

The Company restated the June 30, 2002 balance sheet, statement of shareholders' equity and statement of cash flows to correct the valuation of the marketable equity securities issued in connection with the Company's May 2002 acquisition of Stitch Corporation (Note 4) in accordance with EITF 99-12: "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination". The Company originally valued the marketable securities issued in connection with this acquisition at the market price a few days before and a few days after May 14, 2002, which was the date the Company's shareholders approved the increase in the Company's Common Stock to allow for this transaction to close. The restated June 30, 2002 balance sheet, statement of shareholders' equity and statement of cash flows reflect the marketable securities issued in connection with this transaction at the market price a few days before and a few days after April 10, 2002, the date the definitive agreement was signed. The restated June 30, 2002 consolidated financial statements reflect an increase in Goodwill from \$6,800,827 to \$7,945,580 and an increase in Common Stock from \$55,443,750 to \$56,588,503. The restatement did not impact the net loss or loss per common share reported during 2002 or 2003.

### Reclassification

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

### Use of Estimates

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

### Consolidation

The accompanying consolidated financial statements include the accounts of Stitch. All significant intercompany accounts and transactions have been eliminated in consolidation.

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USA Technologies Inc.

Notes to Consolidated Financial Statements

## 2. Accounting Policies (continued)

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### Cash Equivalents

Cash equivalents represent all highly liquid investments with original maturities of three months or less. Cash equivalents are comprised of a money market fund and certificates of deposit.

### Inventory

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

### Property and Equipment

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

### Goodwill and Intangible Assets

Goodwill represents the excess of cost over fair value of the net assets acquired in acquisitions. The Company adopted Statement of Financial Accounting Standards No. 142 (SFAS No. 142), "Goodwill and Other Intangible Assets," on July 1, 2002. Under SFAS No. 142, Goodwill is no longer permitted to be amortized to earnings, but instead is subject to periodic testing for impairment. The Company tests goodwill for impairment using the two-step process prescribed by SFAS No. 142. The first step screens for potential impairment, while the second step measures the amount of impairment, if any. The Company uses a discounted cash flow analysis to complete the first step in this process. The Company completed the transitional test of goodwill as of July 1, 2002, as prescribed in SFAS No. 142, during the quarter ended December 31, 2002. The Company concluded that there were no goodwill impairment indicators as a result of the transitional test. The Company also performed an annual impairment test of goodwill as of April 1, 2003 and concluded there was no goodwill impairment. During the nine months ended March 31, 2004, no events or circumstances arose indicating an impairment of goodwill may have occurred.

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## 2. Accounting Policies (continued)

### Goodwill and Intangible Assets (continued)

Intangible assets as of June 30, 2003 and 2002 include patents and trademarks acquired in the Stitch acquisition. The aggregate amortization expense was \$292,000 and \$36,500 during the years ended June 30, 2003 and 2002, respectively. Intangible assets as of March 31, 2004 also include patents, trademarks and a non-compete agreement acquired in the Bayview acquisition (Note 17). Aggregate amortization expense was \$899,518 (unaudited) for the nine months ended March 31, 2004. The intangible asset balance and related accumulated amortization consists of the following:

June 30, 2003	
Gross Carrying Amount	Accumulated Amortization
<hr style="border-top: 1px dashed black;"/>	



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Amortized intangible assets			
Trademark	\$	1,050,000	\$ (118,125)
Patents		1,870,000	(210,375)
Total	\$	2,920,000	\$ (328,500)

June 30, 2002

	Gross Carrying Amount	Accumulated Amortization	
Amortized intangible assets			
Trademark	\$	1,050,000	\$ (13,125)
Patents		1,870,000	(23,375)
Total	\$	2,920,000	\$ (36,500)

March 31, 2004 (unaudited)

	Gross Carrying Amount	Accumulated Amortization	
Intangible assets			
Trademarks	\$	2,064,000	\$ (196,875)
Patents		9,294,000	(885,472)
Non-Compete Agreement		1,011,000	(145,671)
Total	\$	12,369,000	\$ (1,228,018)

At June 30, 2003, the expected amortization of the intangible assets is as follows: \$292,000 per year in fiscal year 2004 through fiscal year 2011, and \$255,500 in fiscal year 2012. Considering the Bayview acquisition in July 2003, approximate amortization (unaudited) of intangible assets is expected to be as follows: \$1,200,000 per year in fiscal year 2004 through fiscal year 2008, \$1,000,000 per year in fiscal year 2009 through fiscal year 2012, \$740,000 in fiscal year 2013 and \$22,000 in fiscal year 2014. The weighted average useful life of these intangibles is 10 years at June 30, 2003 and 9.55 (unaudited) years at March 31, 2004.

Concentration of Credit Risk

Financial instruments that subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains cash and cash equivalents with various financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions, and the Company's policy is designed to limit exposure to any one institution. The Company's accounts receivable is net of an allowance for uncollectible accounts. The Company does not require collateral or other security to support credit sales, but provides an allowance for uncollectible accounts based on historical experience and specifically identified risks. Accounts receivable are determined to be carried at fair value

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and charged off against the allowance for uncollectible accounts when management determines that recovery is unlikely and the company ceases collection efforts. Approximately 57% and 41% of the Company's accounts receivable at June 30, 2003 and 2002, and 35% and 12% of the Company's revenues for the years ended June 30, 2003 and 2002, respectively, are concentrated with two customers.

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USA Technologies Inc.

Notes to Consolidated Financial Statements

### 2. Accounting Policies (continued)

#### Revenue Recognition

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

#### Investment

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

#### Software Development Costs

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

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unamortized costs exceed the net realizable value of the asset. During May 2000, the Company reached technological feasibility for the development of the multi-media e-Port client product and related enhanced network and, accordingly, the Company commenced capitalization of software development costs related to

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USA Technologies Inc.

Notes to Consolidated Financial Statements

### 2. Accounting Policies (continued)

#### Software Development Costs (continued)

this product and network. Costs capitalized through 2002 were \$5.3 million, which included capitalized interest of approximately \$493,000, pursuant to SFAS No. 34, "Capitalization of Interest Costs".

During the fourth quarter of fiscal 2002, the multi-media e-Port(TM) client product and enhanced network became available for general release to the Company's customers. The multimedia e-port(TM) client product is equipped with both the audit and cashless payment features, but also includes the capability of displaying interactive advertising and content via a LCD screen. During this quarter, Management performed an evaluation of the commercial success and preliminary market acceptance of the multi-media e-Port(TM) client product and enhanced network and as a result of this evaluation the Company determined that the estimated future revenues less costs to complete and dispose of the multi-media e-Port client product was zero. Therefore, the Company wrote down \$2,663,000 of software development costs related to the multi-media e-Port client product. The unamortized balance of the software development costs after the impairment charge is being amortized over an estimated useful life of two years. Amortization expense for the nine months ended March 31, 2004 was \$998,660 (unaudited). Amortization expense was approximately \$1,331,000 during the year ended June 30, 2003 and \$2,996,000 during the year ended June 30, 2002 (including the above impairment adjustment of \$2,663,000). Such amortization is reflected in cost of sales in the accompanying consolidated statements of operations.

#### Fair Value of Financial Instruments

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

#### Impairment of Long Lived Assets

The Company adopted Statement of Financial Accounting Standards No. 144 (SFAS No. 144), "Accounting for the Impairment or Disposal of Long-Lived Assets" on July 1, 2002. In accordance with SFAS No. 144, the Company reviews its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. During the fourth quarter

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

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USA Technologies Inc.

### Notes to Consolidated Financial Statements

#### 2. Accounting Policies (continued)

##### Advertising Expenses

Advertising expenses for the years ended June 30, 2003 and 2002 were approximately \$72,000 and \$429,000, respectively and were expensed as incurred. Advertising expenses for the nine months ended March 31, 2004 and 2003 were approximately \$36,000 (unaudited) and \$37,000 (unaudited), respectively.

##### Research and Development Expenses

Research and development expenses are expensed as incurred. Research and development expenses, which are included in general and administrative and compensation expense in the consolidated statements of operations, were \$1,505,000 and \$1,187,000 for the years ended June 30, 2003 and 2002, respectively and \$474,000 (unaudited) and \$1,274,000 (unaudited) for the nine months ended March 31, 2004 and 2003, respectively.

##### Accounting for Stock Options

Statement of Financial Accounting Standards No. 123 (SFAS No.123), "Accounting for Stock-Based Compensation", provides companies with a choice to follow the provisions of SFAS No. 123 in determination of stock-based compensation expense or to continue with the provisions of APB No. 25, "Accounting for Stock Issued to Employees and Related Interpretations in Accounting for Stock-Compensation Plans" and the related FASB Interpretation No. 44. The Company has elected to follow the provisions of APB 25. Under APB 25, if the exercise price of the Company's stock options equals or exceeds the market price of the underlying Common Stock on the date of grant, no compensation expense is recognized.

The effect of applying SFAS No. 123 to the Company's stock-based awards results in the same net loss and net loss per common share for the year ended June 30, 2003 and for the nine months ended March 31, 2004 and 2003 on a pro-forma basis under SFAS No. 123 and under APB 25. The effect of applying SFAS No. 123 to the Company's stock-based awards resulted in a net loss and net loss per common share for the year ended June 30, 2002 as follows:

Net loss applicable to common shares as reported	
under APB 25	\$ (18,137,368)
Stock option expense per SFAS 123	(985,046)
	-----

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Pro forma net loss	\$ (19,122,414)
	=====
Loss per common share as reported	\$ (0.50)
	=====
Pro forma net loss per common share	\$ (0.53)
	=====

The fair value for the Company's stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for fiscal year 2002: an expected life of 2 years; no expected cash dividend payments on Common Stock, and a risk-free interest rate of 4.5% to 5.5%, and volatility factors of the expected market price of the Company's Common Stock, based on historical volatility of .85 to .95 for fiscal 2002.

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USA Technologies Inc.

Notes to Consolidated Financial Statements

### 2. Accounting Policies (continued)

#### Accounting for Stock Options (continued)

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. As noted above, the Company's stock options are vested over an extended period. In addition, option models require the input of highly subjective assumptions including future stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can materially affect the fair value estimates, in management's opinion, the Black-Scholes model does not necessarily provide a reliable measure of the fair value of the Company's stock options. The Company's pro forma information reflects the impact of the reduction in price of certain stock options. The pro forma results above are not necessarily reflective of the effects of applying SFAS 123 in future periods.

#### Loss Per Common Share

Basic earnings per share is calculated by dividing income (loss) applicable to common shares by the weighted average common shares outstanding for the period. Diluted earnings per share is calculated by dividing income (loss) applicable to common shares by the weighted average common shares outstanding for the period plus the dilutive effect (unless such effect is anti-dilutive) of equity instruments. No exercise of stock options, purchase rights, stock purchase warrants, or the conversion of preferred stock, cumulative preferred dividends or Senior Notes was assumed during fiscal year 2003 or 2002 or the nine months ended March 31, 2004 and 2003, because the assumed exercise of these securities would be antidilutive.

#### New Accounting Pronouncements

In December 2002, Statement of Financial Accounting Standards No. 148 (SFAS No. 148), "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123" (SFAS No. 123) was issued. SFAS No. 148

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amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has provided the prescribed disclosure format required by SFAS No. 148 during the year ended June 30, 2003.

### 3. Investment in Jubilee Investment Trust

During February 2003, the Company issued 15,000,000 shares of its Common Stock (\$2,850,000) for an investment of 1,870,091 shares in the Jubilee Investment Trust, PLC ("Jubilee"), a United Kingdom Investment Trust whose shares trade on the London Stock

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USA Technologies Inc.

Notes to Consolidated Financial Statements

### 3. Investment in Jubilee Investment Trust (continued)

Exchange. The Company agreed not to sell the Jubilee shares for a period of 90 days from January 24, 2003 and to sell a maximum of 10% of the Jubilee shares during each month thereafter. Jubilee has agreed not to sell the Company's shares of Common Stock for a period of two years from the date of issuance unless agreed to by the Company. As the investment declined in value below its cost basis for a period of six months or more, the Company determined that the decline in the market value of this available for sale investment was "other than temporary" and, accordingly, the Company wrote down the investment to its fair value as of June 30, 2003 realizing an impairment loss of \$1,945,951.

### 4. Acquisition of Stitch Networks Corporation

On May 14, 2002, USA Acquisition Corp., a wholly owned subsidiary of the Company acquired Stitch pursuant to an Agreement and Plan of Merger by and among the Company, USA Acquisition Corp., Stitch and the stockholders of Stitch. Additionally, on May 14, 2002, the Company's shareholders voted to increase the number of authorized shares of Common Stock to 150,000,000. The Company acquired Stitch to strengthen its position as a leading provider of wireless remote monitoring and cashless and mobile commerce solutions and to increase the Company's revenue base. These revenues would include product revenues and monthly service and transaction fees. Additionally, the acquisition of the Stitch technology enhanced the Company's existing technology and complemented the revenue and transaction processing revenue of the Company's existing products. Certain Stitch personnel were believed to possess some key strengths in several disciplines that the Company believed to be of great value in its plans for growth.

Stitch became a wholly-owned subsidiary of the Company effective May 14, 2002. The acquisition was accounted for using the purchase method and, accordingly, the results of the operations of Stitch have been included in the accompanying consolidated statements of operations since the acquisition date. The purchase price consisted of the issuance of 22,762,341 shares of the Company's Common Stock in exchange for the outstanding shares of Stitch, and the issuance of warrants to purchase up to 7,587,447 shares of the Company's Common Stock at

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\$.40 per share at any time through June 30, 2002. The purchase price also included the assumption of outstanding Stitch stock options that were converted into options to purchase an aggregate of 2,475,318 shares of the Company's Common Stock at \$.165 per share at any time prior to May 14, 2007, warrants to purchase up to 412,553 shares of the Company's Common Stock at \$.40 per share at any time through June 30, 2002 and other acquisition related expenses. None of the warrants issued in connection with the acquisition were exercised as of June 30, 2003. A total of 4,800,000 shares of the Common Stock issued to the former stockholders of Stitch are held in escrow to secure the former stockholder's indemnification obligations under the Agreement and Plan of Merger. Such shares are subject to cancellation if there is a breach of the indemnification (as defined). The value of the marketable equity securities issued in connection with this acquisition was determined based on the average market price of the Company's Common Stock over a two-day period before and after April 10, 2002, the date the definitive agreement to acquire Stitch was entered into. Such valuation was in accordance with

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USA Technologies Inc.

Notes to Consolidated Financial Statements

#### 4. Acquisition of Stitch Networks Corporation (continued)

EITF 99-12: "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination".

The Company's vending machines for the Kodak Program are purchased from Dixie-Narco (Dixie) and the film and cameras are purchased directly from Eastman Kodak Company. Product revenues through the fiscal year ended June 30, 2003 were approximately \$445,000. In May 2003, Stitch notified Maytag and Dixie-Narco that they had breached the Kodak Agreement because Maytag had failed to create and maintain during the term of the Kodak Agreement a customer focus team and Dixie had failed to service, place and pick up the machines as required in the Kodak Agreement. In June 2003, Maytag and Dixie-Narco indicated to Stitch that they were not in breach of the Kodak Agreement and that Stitch had breached the Agreement by failing to pay certain payments due thereunder. Maytag and Dixie indicated that the customer focus team was terminated due to Stitch's breach of the Kodak Agreement by failing to pay fees due thereunder and Stitch's not taking delivery of vending machines ordered from Dixie. The parties have been negotiating a resolution of this matter although no settlement has been finalized. The Company believes that any settlement would involve the termination of the Kodak Agreement. In such event, although related revenues would be reduced, because the Kodak program is and has been operating at a loss, the termination of the program would eliminate these losses. The Company also believes that any settlement would involve the payment of the amount due by Stitch to U.S. Bancorp by the other parties to the Kodak Agreement and the forgiveness of the payments due by Stitch to Dixie of approximately \$124,000 (Note 18).

During June 2002, the Company determined that it would vacate the office space previously occupied by Stitch. Accordingly, the Company accrued the remaining lease exit costs relating to this property in the amount of approximately \$354,000 as part of the cost of Stitch. While the Company is attempting to sublease this space, no provision for recovery was estimated.

The following table summarizes the purchase price allocation of the fair value of the assets and liabilities assumed at the date of acquisition:

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Current assets	\$ 2,710,000
Property and equipment	1,700,000
Goodwill	7,946,000
Intangibles	2,920,000
Current liabilities	(1,554,000)
Long-term debt (Note 9)	(3,976,000)
	-----
	\$ 9,746,000
	=====

Unaudited pro-forma combined results of the Company as if the Company acquired Stitch on July 1, 2001 is as follows:

	Year ended June 30 2002
	-----
Revenues	\$ 2,869,466
	=====
Net loss	(19,583,216)
Cumulative preferred dividends	(822,561)
	-----
Loss applicable to common shares	\$ (20,405,777)
	=====
Loss per common share (basic and diluted)	\$ (0.36)
	=====
Weighted average number of common shares outstanding (basic and diluted)	56,676,823
	=====

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USA Technologies Inc.

Notes to Consolidated Financial Statements

5. Property and Equipment

Property and equipment consist of the following:

	Useful Lives	2003	June 30 2002
		-----	-----
Computer equipment and purchased software	3 years	\$ 1,931,912	\$ 1,855,459
Vending machines and related components	7 years	688,284	1,050,220
Control systems	3 years	980,759	982,371
Furniture and equipment	5-7 years	532,570	503,110
Leasehold improvements	Lease term	16,140	94,031
Vehicles	5 years	10,258	10,258
		-----	-----
		4,159,923	4,495,449
Less accumulated depreciation		(3,216,139)	(2,563,022)
		-----	-----
		\$ 943,784	\$ 1,932,427



6. Accrued Expenses

Accrued expenses consist of the following:

	June 30	
	2003	2002
Accrued professional fees	\$ 650,974	\$ 628,372
Accrued consulting fees	662,010	62,480
Accrued lease termination payments, net	344,934	344,934
Accrued compensation and related sales commissions	250,808	225,917
Accrued interest	291,315	209,885
Accrued software license and support costs	125,385	144,755
Accrued product warranty costs	104,406	85,827
Accrued taxes and filing fees	94,529	134,411
Advanced customer billings	62,540	30,190
Accrued other	133,842	264,518
	\$ 2,720,743	\$ 2,131,289

7. Related Party Transactions

During the years ended June 30, 2003 and 2002, the Company incurred approximately \$305,000 and \$213,000, respectively, in connection with legal services provided by a member of the Company's Board of Directors. During the nine months ended March 31, 2004, the Company incurred approximately \$309,000 (unaudited) in connection with legal services provided by this member of the Company's Board of Directors. At June 30, 2003 and 2002, approximately \$22,000 and \$30,000,

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USA Technologies Inc.

Notes to Consolidated Financial Statements

7. Related Party Transactions (continued)

respectively, of the Company's accounts payable and accrued expenses were due to this Board member. At March 31, 2004 approximately \$36,000 (unaudited) of the Company's accounts payable and accrued expenses were due to this Board member. During the years ended June 30, 2003 and 2002 and during the nine months ended March 31, 2004, certain Board members participated in various debt or equity offerings of the Company for a total investment of approximately \$661,500, \$277,500 and \$ -0- (unaudited) respectively. Stitch purchases parts and services from Dixie-Narco, Inc. (Dixie), an affiliate of a shareholder (Maytag Holdings, a subsidiary of Maytag Inc.) of the Company. There were purchases from Dixie of \$201,000 and \$8,000, for the fiscal year ended June 30, 2003 and for the period May 14, 2002 to June 30, 2002, respectively. Amounts payable to Dixie included in accounts payable in the accompanying June 30, 2003 and 2002 consolidated balance sheets were approximately \$130,000 and \$124,000, respectively. There

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were no additional purchases from Dixie during the nine months ended March 31, 2004.

### 8. Commitments

- o In July 2003 the Company and the Company's Chief Executive Officer (CEO) amended the terms of his employment agreement (expiring June 2005). Under the terms of the previous Executive Employment Agreement, the CEO would have been granted seven percent (non-dilutive) of all the then issued and outstanding shares of the Company's Common Stock in the event a "USA Transaction" (as defined) occurs, which among other events includes a change in control of the Company. The amended terms of the Executive Employment Agreement, eliminates the seven percent (non-dilutive) right to receive Common Stock upon a "USA Transaction" and now grants the CEO an aggregate of 14,000,000 shares of Common Stock subject to adjustment for stock splits or combinations in the event a "USA Transaction" occurs. In exchange for the amendment of these terms, the Company issued an aggregate of 10,500,000 shares of its Common Stock to the CEO valued at \$4,620,000 (Unaudited) or \$0.44 per share representing the quoted market price of the Company's Common Stock on the date the purchase agreement was entered into and the shares were valued. In connection with this amendment, the CEO also entered into a lock-up agreement pursuant to which he shall not sell 2,500,000 of these shares for a one-year period and 8,000,000 of these shares for a two-year period. The CEO will not be required to pay any additional consideration for these shares of Common Stock. At the time of a "USA Transaction", all of the 14,000,000 shares to be issued to the CEO in connection with this amendment are automatically deemed to be issued and outstanding, and will be entitled to be treated as any other issued and outstanding shares of Common Stock. These shares will be irrevocable and fully vested, and have no expiration date and will not be affected by the termination of the CEO with the Company for any reason whatsoever.
- o The Company conducts its operations from various facilities under operating leases. During March 2003, the Company entered into a lease agreement for its new corporate headquarters. The lease provides for escalating rent payments and a period of free rent prior to the commencement of the lease payments in January 2004. The Company has provided for deferred rent expense for the difference between the rent payments to be made and the straight line allocation of total rent payments to be made over the lease term. In connection with this lease agreement, the Company has provided the landlord with a security deposit comprised of shares in the Jubilee Investment Trust valued at \$100,000.

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USA Technologies Inc.

Notes to Consolidated Financial Statements

### 8. Commitments (continued)

Rent expense under such arrangements was approximately \$292,000 and \$220,000 during the years ended June 30, 2003 and 2002, respectively, and \$335,000 (unaudited) and \$201,000 (unaudited) for the nine months ended March 31, 2004 and 2003, respectively. The Company has \$180,000 of equipment under capital lease agreements. Capital lease amortization of approximately \$46,000 and \$54,000 is included in depreciation expense for the years ended June 30, 2003 and 2002, respectively. Future minimum lease payments subsequent to June 30, 2003 under capital and noncancelable operating leases are as follows:

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	Capital Leases	Operating Leases
2004	\$ 15,960	\$ 244,000
2005	1,779	346,000
2006	-	343,000
2007	-	313,000
2008 and thereafter	-	480,000
Total minimum lease payments	17,739	\$ 1,726,000
Less amount representing interest	1,882	
Present value of net minimum lease payments	15,857	
Less current obligations under capital leases	14,161	
Obligations under capital leases, less current portion	\$ 1,696	

9. Long-Term Debt

Long-term debt consists of the following:

	2003	June 30 2002
Bank facility	\$ 828,466	\$ 1,255,113
Working capital loans	166,765	275,000
Other, including capital lease obligations	60,057	62,984
IBM inventory financing	--	19,632
	1,055,288	1,612,729
Less current portion	830,674	850,644
	\$ 224,614	\$ 762,085

In connection with the Stitch acquisition (Note 4), the Company assumed long-term debt of \$3,976,000, which included a vending equipment borrowing facility and working capital loans. The Company repaid \$2,165,000 of the working capital loans in June 2002 leaving an outstanding balance of \$275,000 at June 30, 2002. These loans are secured by certain assets of Stitch. At June 30, 2003 \$166,765 of the working capital loans are outstanding which bear interest at 6.75% per annum. Such loans were payable on July 8, 2002. During fiscal year

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## Notes to Consolidated Financial Statements

### 9. Long-Term Debt (continued)

2003 the bank extended the due date on these loans on several occasions under forbearance agreements. At June 30, 2003, the Company is in default under this working capital loan agreement and has agreed to a satisfactory payment arrangement.

The bank facility (the Facility) was utilized by Stitch to fund the purchase of vending machines placed at locations where Kodak film products are sold. Borrowings were made from time to time under the Facility, with repayment schedules set at the time of each borrowing, including equal monthly payments over 36 months and an interest rate based upon 495 basis points over the three year U.S. Treasury Notes. The Company granted the bank a security interest in the film products vending machines. Repayment of principal is also insured by a Surety Bond issued by a third-party insurer in exchange for an initial fee paid by the Company.

### 10. Income Taxes

At June 30, 2003 and 2002, the Company had net operating loss carryforwards of approximately \$76,211,000 and \$54,769,000, respectively, to offset future taxable income expiring through approximately 2023. At June 30, 2003 and 2002, the Company recorded a net deferred tax asset of approximately \$29,771,000 and \$20,546,000, respectively, which was reduced by a valuation allowance of the same amount as the realization of the deferred tax asset is not certain, principally due to the lack of earnings history.

The timing and extent in which the Company can utilize future tax deductions in any year may be limited by provisions of the Internal Revenue Code regarding changes in ownership of corporations. Stitch had net operating loss carryforwards of approximately \$10,985,000 at the acquisition date. Such net operating loss carryforwards are limited under these provisions as to the amount available to offset future taxable income.

The deferred tax assets arose primarily from the use of different accounting methods for financial statement and income tax reporting purposes as follows:

	June 30	
	2003	2002
Deferred tax assets:		
Net operating loss carryforwards	\$ 28,431,000	\$ 19,837,000
Deferred research and development costs	730,000	480,000
Software development costs	1,324,000	1,008,000
Other	338,000	392,000
	30,823,000	21,717,000
Deferred tax liabilities:		
Intangibles	(1,052,000)	(1,171,000)
	29,771,000	20,546,000
Valuation allowance	(29,771,000)	(20,546,000)
Deferred tax asset, net	\$ --	\$ --

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USA Technologies Inc.

## Notes to Consolidated Financial Statements

### 10. Income Tax (continued)

Amounts assigned to intangibles acquired in the Stitch acquisition exceeded the tax basis. Such excess will increase taxable income as the intangibles are amortized. The net operating loss carryforwards will be used to offset the increase in taxable income. Accordingly, the Company recorded a deferred tax liability of \$1,171,000 and a deferred tax asset in the same amount related to these intangibles at the acquisition date.

### 11. Senior Notes and Debentures

During June 2002, the Company commenced a \$2,500,000 2002-A private placement offering (subsequently increased to 430 units or \$4,300,000), consisting of 12% Convertible Senior Notes due December 31, 2005 ("2002 Senior Notes"). Each \$10,000 Senior Note is convertible into Common Stock at \$.20 per share and interest is payable quarterly. Each Note holder initially received 20,000 Common Stock warrants, however subsequent to June 30, 2002, the Board of Directors amended the offering to replace the warrants with 20,000 shares of the Company's Common Stock. The fair value of the Common Stock issued and the intrinsic value of the beneficial conversion feature aggregating \$2,881,847 have been allocated to equity. This resulting debt discount is being amortized to interest expense through December 31, 2005. Through June 30, 2003, the Company issued a total of 401.5 units in this offering, of which 7.5 units are reflected in subscriptions receivable at June 30, 2003. During the year ended June 30, 2003, \$489,608 of the 2002 Senior Notes were converted into 2,448,215 shares of the Company's Common Stock. During the nine months ended March 31, 2004, \$374,359 (unaudited) of the 2002 Senior Notes were converted into 1,871,797 (unaudited) shares of Common Stock.

During fiscal year 2002, the Company commenced a \$2,500,000 2001-D private placement offering (subsequently increased to 650 units or \$6,500,000), consisting of 12% Convertible Senior Notes due December 31, 2004 ("2001 Senior Notes"). Each \$10,000 Senior Note is convertible into Common Stock at \$.40 per share and interest is payable quarterly. Certain shareholders of the Company, who held warrants to purchase Common Stock of the Company as part of an earlier private placement at \$.50 per share, were offered the opportunity to cancel a portion of such warrants and to receive an equivalent number of new Common Stock warrants at \$.10 expiring on December 31, 2002 (subsequently extended to August 31, 2003), if they invested in the 2001-D offering. The original warrants were scheduled to expire on December 31, 2001 or March 31, 2002 (according to their original terms) (Note 13). The estimated fair value of the new warrants was determined to be \$1,787,084 (using the Black-Scholes method) and the intrinsic value of the beneficial conversion feature of \$1,623,352 have been allocated to equity. This resulting debt discount is being amortized to interest expense through December 31, 2004. During fiscal year 2002, the Company issued a total of 481.4 units, resulting in the issuance of \$4,814,000 of 2001 Senior Notes.

During fiscal year 2001, the Company authorized a \$6,700,000 private placement offering ("2000 Senior Notes") of 670 units at \$10,000 per unit. Each unit consisted of a \$10,000 12% Convertible Senior Note, maturing December 31, 2003, and 2,000 shares of Restricted Common Stock. Each Note is convertible

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USA Technologies Inc.

## Notes to Consolidated Financial Statements

### 11. Senior Notes and Debentures (continued)

into Common Stock at \$1.25 per share anytime through December 31, 2003. The Company issued 1,136,300 shares of Common Stock in connection with this Offering. The fair value of the Common Stock on the date such shares were granted of \$1,215,843 and the intrinsic value of the beneficial conversion feature in the 2000 Senior Notes of \$409,104 was allocated to equity. This resulting debt discount is being amortized to interest expense through December 31, 2003. Through June 30, 2003, \$647,500 of such Notes were converted into 518,000 shares of Common Stock. There have been no conversions subsequent to June 30, 2003.

In March 2003, the Company granted to the holders of the 2000 Senior Notes and 2001 Senior Notes the right to extend the maturity date of these Senior Notes to December 31, 2006 and December 31, 2007, respectively, in exchange for reducing the conversion rates from \$1.25 to \$0.20 per share for the 2000 Senior Notes and from \$0.40 to \$0.20 per share for the 2001 Senior Notes. This offer has been extended by the Company's Board of Directors until October 31, 2003 and then further extended to December 31, 2003. Through June 30, 2003, \$3,548,000 of the 2000 Senior Note holders and \$3,363,397 of the 2001 Senior Note holders agreed to this offer and exchanged their Notes. Subsequent to June 30, 2003 and through September 12, 2003, an additional \$456,000 of the 2000 Senior Notes and \$276,701 of the 2001 Senior Notes have been exchanged for the 2006 Senior Notes and 2007 Senior Notes, respectively. From September 13, 2003 to December 31, 2003, an additional \$1,020,000 (unaudited) of the 2000 Senior Notes and \$551,252 (unaudited) of the 2001 Senior Notes have been exchanged for the 2006 Senior Notes and 2007 Senior Notes, respectively. For all 2000 Senior Note holders who agreed to exchange their Notes, such amounts have been reflected as long-term in the accompanying June 30, 2003 consolidated balance sheet. Senior Notes scheduled to mature on December 31, 2004 are reflected as a current liability in the accompanying March 31, 2004 consolidated balance sheet along with \$10,000 of Senior Notes scheduled to mature on December 31, 2003 that were not exchanged for 2006 Senior Notes. The exchange of the 2000 Senior Notes and 2001 Senior Notes to the 2006 Senior Notes and 2007 Senior Notes was deemed a significant modification of the terms of the Senior Notes and, accordingly the 2000 and 2001 Senior Notes have been extinguished. Accordingly, at June 30, 2003 and for the nine months ended March 31, 2004, the Company expensed \$1,521,654 and \$318,915 (unaudited) of unamortized debt discount and other issuance costs remaining on the 2000 Senior Notes and 2001 Senior Notes. Such amounts have been reported as loss on debt modification in the June 2003 and March 2004 statement of operations.

As the share price was greater than the conversion rate in the fourth quarter of fiscal year 2003, the Company recorded the intrinsic value of this beneficial conversion feature of \$1,318,500 and \$590,710 for the Senior Notes due in 2006 and 2007, respectively. For the nine months ended March 31, 2004, an additional \$1,981,007 (unaudited) was recorded as beneficial conversion. Such amount has been allocated to equity and the resulting debt discount is being amortized to interest expense through the Notes maturity dates. During fiscal year 2003, \$332,500 and \$323,334 of the Senior Notes maturing in 2006 and 2007, respectively, were converted into 1,662,500 and 1,616,668, shares of the Company's Common Stock. During the nine months ended March 31, 2004 \$1,372,000 (unaudited) and \$402,272 (unaudited) of the Senior Notes maturing in 2006 and 2007, respectively, were converted into 8,871,357 shares of the Company's Common Stock.

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USA Technologies Inc.

Notes to Consolidated Financial Statements

11. Senior Notes and Debentures (continued)

A summary of the various Senior Note activities is as follows:

	Senior Notes Maturing December 31,			
	2003	2004	2005	(2006)
	(2000 Senior Notes)	(2001 Senior Notes)	(2002 Senior Notes)	(2003 Senior Notes)
Outstanding at June 30, 2001	\$ 5,656,500	\$ --	\$ --	\$ --
Issued for cash and services	--	4,814,593	444,083	--
Converted into Common Stock	(622,500)	--	--	--
Repaid at maturity	--	--	--	--
Less: Unamortized debt discount and other issuance costs	(750,295)	(2,928,567)	(323,989)	--
Balance at June 30, 2002	4,283,705	1,886,026	120,094	--
Issued for cash and services/ (rescinded)	--	(172,091)	3,571,675	--
Exchange of 2000 and 2001 Senior Notes for 2006 and 2007 Senior Notes	(3,548,000)	(3,363,397)	--	3,548,000
Converted into Common Stock	--	--	(489,608)	(3,548,000)
Less: Unamortized debt discount and other issuance costs, net of accretion	670,062	2,474,637	(1,829,234)	(1,178,745)
Balance at June 30, 2003	\$ 1,405,767	\$ 825,175	\$ 1,372,927	\$ 2,191,255
Exchange of 2000 and 2001 Senior Notes for 2006 and 2007 Senior Notes (Unaudited)	(1,476,000)	(827,953)	--	1,476,000
Converted into Common Stock (Unaudited)	--	--	(374,359)	(1,372,927)
Less: Unamortized debt discount and other issuance costs, net of accretion (Unaudited)	80,233	380,033	809,024	--
Balance at March 31, 2004 (Unaudited)	\$ 10,000	\$ 377,255	\$ 1,807,592	\$ 2,191,255

The unamortized debt discount and other issuance costs represents fees paid in connection with these financings, the estimated fair value of the detachable equity instruments issued in connection with these financings, and any beneficial conversion embedded in the debt at the commitment date. Such amounts are being amortized over the remaining life of the respective debt instruments. Debt discount amortization for the Senior Notes, which has been reflected as interest expense in the consolidated statements of operations, was approximately \$2,690,000 and \$1,513,000 for the years ended June 30, 2003 and 2002, respectively. For the nine months ended March 31, 2004 and 2003, \$2,642,123 and

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\$1,950,244, respectively, (unaudited) was charged to interest expense for the amortization of debt discount on the Senior Notes.

During October 2002, the Company's Board of Directors approved that for the quarterly interest payment payable by the Company on its 12% Convertible Senior Notes (for all quarters in fiscal year 2003), at the option of the note holder, the interest payment due can be used to purchase shares of the Company's Common Stock at a rate of \$.20 per share. Additionally, for each share purchased, the note holder also received a warrant to purchase one share of the Company's Common Stock at \$.20 per share exercisable at any time prior to June 30, 2004. During the years ended June 30, 2003 and 2002, 2,315,000 and 674,431 shares respectively, were issued for the payment of the quarterly interest. A total of 2,315,000 and 303,831 warrants were also issued during the years ended June 30, 2003 and 2002, respectively. The estimated fair value of the

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USA Technologies Inc.

### Notes to Consolidated Financial Statements

#### 11. Senior Notes and Debentures (continued)

warrants issued of approximately \$279,000 and \$43,000 was determined using a Black-Scholes method and has been recorded as interest expense. The holders of Senior Notes continued to have the option to use quarterly interest earned through December 31, 2003 to purchase common shares at \$.20 per share. For the nine months ended March 31, 2004, 1,062,034 (unaudited) shares were issued (along with an identical number of warrants) for the payment of quarterly interest to those note holders accepting the offer. The fair value of the warrants issued and the beneficial conversion feature related to the \$.20 per share rate used to convert the interest to Common Stock totaled \$266,258 (unaudited) and has been recorded as additional interest expense for the period.

The Company executed a Securities Purchase Agreement with an investment company for the purchase of \$325,000 (as amended) of a 9.75% Convertible Debenture (the Debenture) due August 2004. Interest on the Debenture was payable monthly in arrears and the Debenture was convertible at a price equal to the lesser of \$1.00 or 72% (80% prior to June 18, 2002) of the lowest closing bid price of the Company's Common Stock during the 20 day period prior to the conversion. The Company reserved the right to prepay the portion of the Debenture that the investment company elected to convert, plus interest, at 150% of such amount, if the price of Common Stock is less than \$0.40 per share. At the time of conversion, the Company issued to the Debenture holder warrants to purchase an amount of Common Stock equal to ten times the number of shares issued upon the conversion of the Debenture. The warrants are exercisable at the same conversion price as the Debenture. Due to the significance of the beneficial conversion feature associated with this instrument, the entire \$325,000 of proceeds was allocated to the warrants and has been allocated to equity. This debt discount is being amortized to interest expense over the term of the Debenture. During the fiscal years ending June 30, 2003 and 2002, the investment company converted \$243,000 and \$82,000, respectively of the Debenture, resulting in the issuance of 2,467,225 and 333,678 shares, respectively of Common Stock. The investment company also exercised warrants resulting in the issuance of 7,206,893 and 3,336,780 shares of Common Stock and generating net cash proceeds of \$630,000 and \$804,250 during the years ended June 30, 2003 and 2002, respectively. At June 30, 2002, \$280,000 of deposits represented funds advanced to the Company by the investment company for future warrant exercises. Such funds were utilized for this purpose during fiscal year 2003.



12. Series A Preferred Stock

The authorized Preferred Stock may be issued from time to time in one or more series, each series with such rights, preferences or restrictions as determined by the Board of Directors. Each share of Series A Preferred Stock shall have the right to one vote and is convertible at any time into one share of Common Stock. Each share of Common Stock entitles the holder to one voting right. Series A Preferred Stock provides for an annual cumulative dividend of \$1.50 per share payable to the shareholders of record in equal parts on February 1 and August 1 of each year. Cumulative unpaid dividends at June 30, 2003 and 2002 amounted to \$5,913,107 and \$5,175,571, respectively and \$6,686,250 (unaudited) at March 31, 2004. Cumulative unpaid dividends are convertible into common shares at \$10.00 per common share at the option of the shareholder. During the years ended June 30, 2003 and 2002, certain holders of the Preferred Stock converted 4,790 and 26,002 shares, respectively, into 4,790 and 26,002 shares of Common Stock, respectively. Certain of these shareholders also converted cumulative preferred dividends of \$56,050 and \$268,140, respectively, into 5,605 and 26,814 shares of Common Stock during the years ended June 30, 2003 and 2002, respectively. During the nine months ended March 31, 2004, certain holders of the Preferred Stock converted 1,050 (unaudited) shares into 1,050 (unaudited) shares of Common Stock and converted cumulative preferred dividends of \$13,370 into 1,337 (unaudited) shares of Common Stock. The Series A Preferred Stock may be called for redemption at the option of the Board of Directors at any time on and after January 1, 1998 for a price of \$11.00 per share plus payment

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USA Technologies Inc.

Notes to Consolidated Financial Statements

12. Series A Preferred Stock (continued)

of all accrued and unpaid dividends. No such redemption has occurred as of June 30, 2003 or March 31, 2004. In the event of any liquidation, the holders of shares of Series A Preferred Stock issued shall be entitled to receive \$10.00 for each outstanding share plus all cumulative unpaid dividends. If funds are insufficient for this distribution, the assets available will be distributed ratably among the preferred shareholders.

13. Common Stock Transactions

During the years ended June 30, 2003 and 2002, the Company's Board of Directors authorized various Common Stock private placement offerings as follows:

- o 2003-A Private Placement Offering to sell up to 15,000,000 restricted shares of Common Stock (subsequently amended to 86,000,000 shares in August 2003). Through June 30, 2003, the Company issued 78,636,082 shares of its Common Stock generating net proceeds of \$7,792,133 (\$7,863,082 less offering costs of \$71,475). Included in this amount are subscriptions receivable totaling \$937,830. Such subscriptions are reflected in current assets in the 2003 balance sheet as such amounts were collected by the Company as of September 12, 2003. The Company also issued 1,854,390 shares from this offering for services rendered by consultants in the amount of \$397,889. Subsequent to June 30, 2003 and through September 12, 2003, the Company issued an additional 2,228,390 shares of Common Stock in this offering generating gross cash proceeds

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of \$222,839.

- o Five private placement offerings during fiscal year 2003 to individual investors aggregating 10,571,429 shares of Common Stock generating net proceeds of \$957,925 as follows:

- i.) 2,500,000 million shares to an accredited investor at \$0.10 per share generating proceeds of \$250,000;

- ii.) 1,000,000 shares to an accredited investor at \$0.10 per share generating proceeds of \$100,000, plus warrants to purchase up to 4,000,000 shares of the Company's Common Stock at \$0.10 per share at any time through November 28, 2003;

- iii.) 1,500,000 shares to an accredited investor at \$0.10 per share generating proceeds of \$50,000, plus warrants to purchase 750,000 shares of Common Stock at \$0.15 per share through October 2007. This investor has also agreed to purchase an additional 1,500,000 shares of Common Stock at \$0.10 per share and receive an additional 750,000 warrants upon the effectiveness of a registration statement to register the initial 1,500,000 million shares purchased;

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USA Technologies Inc.

Notes to Consolidated Financial Statements

### 13. Common Stock Transactions (continued)

- iv.) 3,571,429 shares to an accredited investor at \$.07 per share generating net proceeds of \$244,925 (\$250,000 less offering costs of \$5075). This investor also received a warrant to purchase 7,142,858 shares of the Company's Common Stock at \$.07 per share at any time before October 26, 2007, and an additional warrant to purchase 5,000,000 shares at \$0.10 per share expiring October 2003; and

- v.) 2,000,000 shares to an accredited investor at \$0.12 per share generating proceeds of \$240,000. The investor also received a warrant to purchase 2,000,000 shares of Common Stock at \$.10 per share through May 31, 2003. No warrants were exercised during fiscal year 2003.

- o 2001-C Private Placement Offering for the issuance of 4,500,000 shares of Common Stock at \$.50 per share. For each share purchased the holder received a warrant to purchase one share of Common Stock at \$.50 per share expiring in May 2002. During fiscal year 2002, the Company issued 4,046,684 shares of Common Stock generating net proceeds of \$1,992,852 (\$2,077,124 less offering costs of \$84,272).

- o 2001-B Private Placement Offering for the issuance of 8,400,000 shares of Common Stock at \$.60 per share. For each dollar invested in this offering the Company also issued a Common Stock Warrant to the investor

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at \$.50 per share (subsequently reduced to \$.10 if the shareholder invested in the 2001 D Senior Note Offering). Through June 30, 2001, the Company issued 2,669,400 shares of Common Stock generating net proceeds of \$1,546,885 (\$1,601,640 less offering costs of \$54,755). During fiscal year 2002, the Company issued an additional 4,726,040 shares of Common Stock generating net proceeds of \$2,754,371 (\$3,014,043 less offering costs of \$259,672).

Participants in the 2001-B offering exercised 3,375,761 and 1,684,504 warrants during the years ending June 30, 2003 and 2002, respectively, generating proceeds of \$337,577 and \$168,451, respectively. Participants in the 2001-C offering exercised 284,934 and 122,358 warrants at \$0.10 per share during the years ending June 30, 2003 and 2002, respectively, generating proceeds of \$28,494 and \$12,236, respectively.

The Company also issued 2,855,042 and 2,784,134 shares of Common Stock for professional services during the years ended June 30, 2003 and 2002, respectively. Such shares were valued based on the fair value of the Company's Common Stock on the date the shares were granted. During the year ended June 30, 2003 and 2002, the Company also issued 1,040,000 and 2,340,000 shares of Common Stock to certain employees and officers for services. These shares were fully vested on the date of grant; accordingly, the Company recorded compensation expense of \$166,400 and \$981,000 during the years ended June 30, 2003 and 2002, respectively, based on the fair value of the Company's Common Stock on the date the shares were granted.

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USA Technologies Inc.

### Notes to Consolidated Financial Statements

#### 13. Common Stock Transactions (continued)

During October 2002, the Company's Board of Directors authorized granting to all of the holders of the 12% Convertible Senior Notes (hereinafter referred to as Investors), 10,306,026 Common Stock warrants to purchase the Company's Common Stock at \$0.10 per share. The total number of the warrants issued was equal to 75% of the dollar amount of the Senior Notes held by the then Investors. These warrants were exercisable through November 30, 2002 (subsequently extended through October 31, 2003). Upon the exercise of the warrant by the Investor, the Company granted an identical number of warrants to that Investor with an exercise price of \$0.10 per share exercisable through October 31, 2003. Through June 30, 2003, the Investors exercised a total of 7,127,508 Common Stock warrants, generating gross proceeds to the Company of \$712,751. At June 30, 2003, an additional 7,127,508 warrants were granted upon the exercise of the initial warrant to these Investors. Of the additional warrants, 6,898,296 were exercised as of June 30, 2003, generating gross proceeds to the Company of \$689,830.

During the year ended June 30, 2003, the Company's shareholders approved the increase in the Company's authorized Common Stock on several occasions. At June 30, 2003, the Company's shareholders approved an increase in the authorized shares of Common Stock to 400,000,000.

A summary of Common Stock Warrant activity for the years ended June 30, 2003 and 2002 and the nine months ended March 31, 2004 is as follows:

Warrants

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Outstanding at June 30, 2001	8,233,028
Issued	22,602,593
Exercised	(1,833,529)
Cancelled	(22,162,272)
	-----
Outstanding at June 30, 2002	6,839,820
Issued	76,286,145
Exercised	(18,894,241)
Cancelled	(2,104,000)
	-----
Outstanding at June 30, 2003	62,127,724
Issued (unaudited)	1,066,034
Exercised (unaudited)	(11,934,356)
Cancelled (unaudited)	(15,465,715)
	-----
Outstanding at March 31, 2004 (Unaudited)	35,793,687
	=====

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USA Technologies Inc.

Notes to Consolidated Financial Statements

13. Common Stock Transactions (continued)

The exercise price and exercise dates of outstanding and exercisable warrants outstanding at June 30, 2003 are as follows:

Outstanding and Exercisable	Exercise Price	Expiration Date
-----		
5,796,973	\$ 0.10	September 30, 2003
7,142,858	0.07	October 26, 2007
7,142,858	0.07	To Be Determined
5,000,000	0.10	To Be Determined
4,000,000	0.10	November 28, 2003
2,480,150	0.10	April 18, 2005
3,472,220	0.10	April 24, 2005
11,513,006	0.10	June 2, 2005
1,500,000	0.15	November 15, 2007
2,618,831	0.20	June 30, 2004
150,000	0.70	August 2, 2003
650,000	0.70	November 23, 2003
1,200,000	0.91	August 29, 2010
377,927	1.00	April 24, 2011
2,901	1.03	April 30, 2011
75,000	1.25	June 30, 2006
5,000	4.00	August 17, 2003
9,000,000	0.10	To Be Determined
		-----
62,127,724		=====

During the years ended June 30, 2003 and 2002, the Company's Board of Directors amended the terms of certain outstanding Common Stock Warrants whereby the exercise price was reduced and the expiration dates were extended. The above table reflects the status of the warrants as of June 30, 2003. Certain of the warrant expiration dates will be determined upon the registration of the shares of Common Stock underlying such warrants.

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The exercise price and exercise dates of outstanding and exercisable warrants outstanding at March 31, 2004 are as follows (Unaudited):

Outstanding and Exercisable	Exercise Price	Expiration Date
3,571,429	\$ 0.07	April 22, 2004
2,500,000	0.10	June 22, 2004
3,673,665	0.20	June 30, 2004
2,500,000	0.10	December 22, 2004
13,999,907	0.1008	December 1, 2005
75,000	1.25	June 30, 2006
7,142,858	0.07	October 26, 2007
750,000	0.067	November 15, 2007
1,200,000	0.906	August 29, 2010
377,927	1.00	April 24, 2011
2,901	1.03	April 30, 2011
----- 35,793,687 =====		

### 14. Stock Options

The Company's Board of Directors has granted options to employees and its Board members to purchase shares of Common Stock at or above fair market value. The option term and vesting schedule are established by the contract that granted the option.

The following table summarizes all stock option activity during the years ended June 30, 2003 and 2002 and for the nine months ended March 31, 2004:

	Common Shares Under Options Granted	Exercise Price Per Share
Balance at June 30, 2001	4,886,667	\$ 0.50-\$5.00
Granted	4,505,318	\$ 0.165-\$ .70
Canceled or expired	(4,101,500)	\$ 0.40-\$5.00
Balance at June 30, 2002	5,290,485	\$ 0.165-\$5.00
Canceled or expired	(2,383,000)	\$ 0.40-\$5.00
Balance at June 30, 2003	2,907,485	\$ 0.165-\$2.50
Exercised (unaudited)	(223,862)	\$ 0.165
Canceled or expired (unaudited)	(549,391)	\$ 0.165-\$2.50
Balance at March 31, 2004 (Unaudited)	2,134,232	\$ 0.165-\$2.00

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USA Technologies Inc.

Notes to Consolidated Financial Statements

### 14. Stock Options (continued)

The price range of the outstanding Common Stock options at June 30, 2003 is as follows:

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Option Exercise Prices	Options Outstanding and Exercisable	Weighted Average Remaining Contract Life (Yrs.)
\$ .165	2,475,318	3.87
\$ .70	150,000	0.09
\$ 1.00	125,000	2.85
\$ 1.50	42,000	0.10
\$ 2.00	41,167	1.25
\$ 2.50	74,000	0.04
	-----	
	2,907,485	
	=====	

The price range of the outstanding Common Stock options at March 31, 2004 is as follows (Unaudited):

Option Exercise Prices	Options Outstanding and Exercisable	Weighted Average Remaining Contract Life (Yrs.)
\$ .165	1,970,565	3.17
\$ 1.00	125,000	2.12
\$ 2.00	38,667	.53
	-----	
	2,134,232	
	=====	

As of June 30, 2003, the Company has reserved shares of Common Stock for the following:

Exercise of Common Stock options	2,907,485
Exercise of Common Stock warrants	62,127,724
Conversions of Preferred Stock and cumulative Preferred Stock dividends	1,115,803
Conversions of Senior Notes	53,295,128
	-----
	119,446,140
	=====

As of March 31, 2004, the Company has reserved shares of Common Stock for the following (Unaudited):

Exercise of Common Stock options	2,134,232
Exercise of Common Stock warrants	35,793,687
Conversions of Preferred Stock and cumulative Preferred Stock dividends	1,192,067
Conversions of Senior Notes	50,813,055
	-----
	89,933,041
	=====

15. Retirement Plan

The Company's Savings and Retirement Plan (the Plan) allows employees who have attained the age of 21 and have completed six months of service to make voluntary contributions up to a maximum of 15% of their annual compensation, as

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defined in the Plan. Through June 30, 2000, the Plan did not provide for any matching contribution by the Company, however, starting at the beginning of fiscal year 2001, the Company has amended the Plan to include a Company matching contribution up to 10% of an employee's compensation. Effective January 1, 2003, the matching contribution changed to a dollar-for-dollar matching contribution on salary deferrals up to 3% of the employee's compensation then a fifty-cents on the dollar matching contribution on salary deferrals from 3% to 5%. The Company contribution for the years ended June 30, 2003 and 2002 was approximately \$67,000 and \$48,000, respectively and for the nine months ended March 31, 2004 and 2003, the Company contribution was approximately \$53,000 (unaudited) and \$37,000 (unaudited), respectively.

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USA Technologies Inc.

Notes to Consolidated Financial Statements

### 16. Contingencies

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

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USA Technologies Inc.

Notes to Consolidated Financial Statements

### 17. Subsequent Events

#### BAYVIEW TECHNOLOGY GROUP, LLC

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

The acquired energy control equipment reduces energy consumption in vending machines, glass front coolers, laser printers, monitors and other office peripherals throughout the United States. As a result of the acquisition, the Company believes it will be a leading provider of end-to-end networked solutions that includes wireless and internet connections, cashless transaction and security/ID capability and interactive media functionality, and remote inventory and auditing control and energy cost reductions and environmental emissions reductions. The Company also expects to reduce costs through economies of scale.

The acquisition cost of Bayview was \$10,030,894 (unaudited), which principally was comprised of the issuance of 20,000,000 shares of restricted Common Stock valued at \$9,200,000 (unaudited) and a cash payment of \$631,247 (unaudited). The value of the 20,000,000 shares of Common Stock was determined based on the

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average market price of the Company's Common Stock over the two-day period before and after the definitive agreement date of July 11, 2003. The purchase price also included acquisition related costs of \$199,647 (unaudited).

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition (Unaudited):

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

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

The acquisition was accounted for using the purchase method and, accordingly, the results of operations of Bayview have been included in the accompanying consolidated statements of operations since the date of acquisition. Results of operations of the Company for the nine months ended March 31, 2004 would not have been significantly different than reported had the acquisition taken place July 1, 2003. Pro-forma combined results for the nine months ended March 31, 2003 would have been as follows had the acquisition taken place July 1, 2002 - revenues of \$6,306,838 (unaudited); net loss of \$12,927,242 (unaudited); loss applicable to common shares of \$13,720,828 (unaudited); loss per common share (basic and diluted) of \$0.12 (unaudited).

### OTHER SUBSEQUENT EVENTS

On September 26, 2003, the Company completed a sale of 20,000,000 shares of Common Stock to accredited investors at \$0.25 per share generating gross proceeds of \$5,000,000. Of these shares, Wellington Management Company, LLP purchased 18,000,000 on behalf of their clients, and the balance of the shares were purchased by other investors. An additional 10,000 shares (unaudited) of Common Stock were sold to these investors generating proceeds of \$2,500 (unaudited).

During September 2003, the Company issued 500,000 shares of Common Stock to an existing investor in connection with provision from a fiscal year 2003 equity transaction. The Company also reduced the exercise price on 750,000 Common Stock Warrants previously issued to this investor from \$0.10 per share to \$0.0665 per share. Such shares were viewed as an adjustment to the original shares issued in connection with the original private placement offering.

On September 16, 2003 and September 24, 2003, the Company sold an aggregate of 700,000 shares of its investment in Jubilee realizing net cash proceeds of approximately \$395,000.

During September 2003, the Company's Board of Directors authorized the establishment of the 2003-A Stock Compensation Plan whereby 500,000 shares of the Company's Common Stock shall be available for future issuance to Company employees, directors or consultants as compensation.

During the period from September 12, 2003 through September 30, 2003, an additional \$660,000 of the 2000 Senior Notes and \$430,390 of the 2001 Senior Notes have been exchanged for the 2006 and 2007 Senior Notes, respectively. For



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the 2000 Senior Noteholders who agreed to exchange their notes, such amounts have been reflected as long-term in the accompanying June 30, 2003 consolidated balance sheet.

The following condensed consolidated pro forma balance sheet reflects the effects of these subsequent events as if they have occurred as of June 30, 2003:

Condensed Consolidated Proforma Balance Sheet	As Reported June 30, 2003	Adjustments	Pro June
Total current assets	\$ 5,375,983	\$ 4,426,000	\$ 9
Property and equipment	943,784	237,000	1
Intangibles, including goodwill	11,535,740	9,805,000	21
Other assets	37,174	--	
<b>Total assets</b>	<b>\$17,892,681</b>	<b>\$14,468,000</b>	<b>\$32</b>
Current liabilities	\$ 6,215,108	\$ 190,000	\$ 6
Long-term liabilities	7,985,490	--	7
Total shareholders' equity	3,692,083	14,278,000	17
<b>Total liabilities and shareholders' equity</b>	<b>\$17,892,681</b>	<b>\$14,468,000</b>	<b>\$32</b>

The adjustment column reflects the recording of the operating assets of Bayview. The purchase price is comprised of the issuance of 20,000,000 shares of the Company's Common Stock valued at \$9,200,000, a cash payment of \$631,000, the assumption of \$40,000 of liabilities and the payment of acquisition related expenses of \$228,000. The adjustment column also reflects the issuance of 20,000,000 shares of the Company's Common Stock at \$0.25 per share generating gross proceeds of \$5,000,000.

### 18. Subsequent Events (Unaudited)

In November 2003, Stitch and the lessor of the office space that Stitch had occupied reached an agreement that required Stitch to pay the lessor \$55,000 as consideration to release Stitch from any further obligations under the lease. In addition, a security deposit of approximately \$9,000 was retained by the lessor. Accordingly, the difference between estimated lease exit costs accrued of \$354,000 and actual consideration paid, was recorded as a reduction of goodwill in the amount of \$290,000 during the nine months ended March 31, 2004.

On November 6, 2003 the Company reached an agreement with the bank that provided working capital loans to Stitch whereby the Company will make monthly installments to repay the remaining balance (\$76,765 as of March 31, 2004) by October 2004.

Effective December 31, 2003, the parties to the Kodak Vending Placement Agreement (Note 4) finalized a settlement of a dispute which resulted in the termination of the vending agreement as of December 31, 2003. Under the settlement agreement, the Company received a payment from Kodak of approximately \$675,000. The Company will also receive payments of \$300 per vending machine

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from the supplier of the vending machines, as the machines are pulled from service at the supplier's sole cost and expense. Upon receipt of the \$300 per machine, title to the vending machine will transfer from Stitch to the supplier. Through March 31, 2004 the Company received approximately \$35,000 for these machines. The settlement agreement provides that all machines are to be pulled from service no later than mid calendar year 2004. Substantially all the machines are no longer in service. The agreement also provides for the supplier to cancel a \$124,000 obligation of Stitch for the purchase of vending machines. The vending machines were used as collateral to secure the bank facility used to purchase the machines under which \$377,653 was outstanding as of March 31, 2004. The Company will repay this debt as the vending machines are returned to the supplier.

This termination agreement resulted in gain of \$509,244 during the nine months ended March 31, 2004 and such amount is reflected as Other income in the March 31, 2004 Consolidated Statement of Operations. This gain is comprised of the payment from Kodak of approximately \$675,000 plus the cancellation of Stitch's obligation to the supplier of the vending machines of approximately \$124,000 reduced by a write down of the carrying value of vending machines of approximately \$290,000 to reflect the vending machines at their realizable value of \$300 per machine. The vending machines are reported as assets held for sale in the Consolidated Balance Sheet, as it was determined that the plan of sale criteria in FAS 144 was met in the termination agreement, at which time depreciation of these assets ceased. To the extent any costs are incurred by Stitch to fulfill its obligations under the settlement agreement, these costs will be recorded as incurred.

In March 2004, the Company sold 969,091 (unaudited) of the Jubilee shares for net proceeds of \$1,075,891 (unaudited). Sale proceeds of \$762,130 (unaudited) were outstanding as of March 31, 2004 and are reflected as Other receivable in the March 31, 2004 unaudited Balance Sheet. These proceeds were subsequently received in April 2004. Gains realized in these sales during the nine months ended March 31, 2004 totaled \$603,480 (unaudited) and are reflected in Other income (expense) in the March 31, 2004 consolidated statement of operations. An unrealized gain of \$51,819 (unaudited) on the remaining shares held by the Company is reflected in shareholders' equity as Accumulated other comprehensive income at March 31, 2004.

On April 21, 2004, the Company and La Jolla Cove Investors, Inc. reached an agreement regarding La Jolla's letter claiming damages for failure to register certain shares underlying La Jolla's warrants. Per this agreement, the Company agreed to extend the expiration date of La Jolla's remaining 13,510,000 warrants until December 1, 2005, La Jolla released all claims against the Company and La Jolla agreed to limit the sale of our shares during any calendar month to an amount not greater than seven percent of the prior month's share trading volume. On May 11, 2004, the Company agreed to reduce the exercise price of La Jolla's remaining warrants from \$0.1008 to \$0.0908. During May 2004, La Jolla exercised all of their remaining warrants at \$0.0908 per share generating net proceeds of \$1,215,900.

In June 2004 the Board of Directors took certain actions:

Each investor in the 2004-A private placement offering of Common Stock (an offering for the issuance of up to 35,000,000 shares of Common Stock at \$.15 per share authorized by the Board of Directors in February 2004 resulting in sales through March 31, 2004 of 550,000 shares for proceeds of \$82,500 and an aggregate of 28,290,833 shares for proceeds of \$4,243,625 through June 29, 2004) will receive warrants to purchase shares of the Company's Common Stock equal to 50% of the number of shares purchased in the offering. These warrants will be exercisable at \$.20 per share and expire on December 31, 2004. As of June 29, 2004, 14,145,417 warrants were issued.

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Warrants granted to holders of Senior Notes who opted to receive payment of interest in Common Shares in lieu of cash had the expiration date of their warrants extended to August 30, 2004 from June 30, 2004. As of June 29, 2004 there were warrants outstanding to purchase 3,716,496 shares of Common Stock at \$.20 per share. In addition, the holders of these warrants were granted one additional warrant for each warrant previously granted with the same exercise price and an expiration date of December 31, 2004.

A Common Stock Purchase Agreement with Steve Illes, an accredited investor, was approved. During the one year period following the date of effectiveness of a registration statement covering the shares, Illes has agreed to purchase from USA shares of Common Stock, provided that the aggregate purchase price can not exceed \$7,500,000. Under the Agreement, Illes is permitted to purchase Common Stock from USA at any time at the price per share of \$.30. In addition, USA has the right at any time to require Illes to purchase Common Stock from USA at the lower of: (i) \$.30; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by USA to Illes of notice of his obligation to purchase. USA can require Illes to purchase shares under the Agreement only if the shares have been registered by the Company for resale by Illes under the Act. During any calendar month, Illes is not permitted to purchase and can not be required by USA to purchase Common Stock for an aggregate purchase price in excess of \$700,000. We have agreed to pay to Illes a due diligence fee of \$45,000.

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

#### Members

Bayview Technology Group, LLC  
Denver, Colorado

We have audited the accompanying balance sheets of Bayview Technology Group, LLC (the "Company" and "Successor") as of December 31, 2002 and 2001, and the related statements of operations, members' equity and cash flows for the year ended December 31, 2002 and for the period from June 1, 2001 (commencement of operations) through December 31, 2001, and the statements of operations, stockholders' equity and cash flows of Bayview Technology Group, Inc. ("Predecessor") as described in Summary of Accounting Policies - Organization, Description of Business and Basis of Presentation for the period from January 1, 2001 to May 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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In our opinion, the Successor financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001, and the results of its operations and cash flows for the year ended December 31, 2002 and for the period from June 1, 2001 (commencement of operations) through December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. Further, in our opinion, the Predecessor financial statements referred to above present fairly, in all material respects the results of operations and cash flows of the Predecessor for the period January 1, 2001 to May 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Summary of Accounting Policies - Organization, Description of Business and Basis of Presentation, the Successor purchased certain assets and assumed certain liabilities of the Predecessor on May 31, 2001, in a business combination accounted for as a purchase. As a result, the financial statements of the Successor are presented on a new basis of accounting from the financial statements of Predecessor and, therefore, are not comparable.

As discussed in Summary of Accounting Policies, the Company changed its method of accounting for goodwill in 2002.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As more fully described in the Summary of Accounting Policies - Going Concern and Management's Plans, the Company sold substantially all of its revenue producing assets in 2003 and is dependent on funding from its members for its continuing operations. These conditions give rise to substantial doubt about the Company's ability to continue as a going concern. Management's Plans are also described in the Summary of Accounting Policies, Going Concern and Management's Plans. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Anton Collins Mitchell LLP

Denver, Colorado  
September 4, 2003

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### BAYVIEW TECHNOLOGY GROUP, LLC

#### BALANCE SHEETS

		December
		2002
		-----
Assets (Notes 3 and 4)		
Current Assets:		
Cash	\$	54,604
Accounts receivable (Note 10)		858,397
Inventories		317,202
Prepaid expenses and other current assets		37,138
		-----
Total current assets		1,267,341
Goodwill (Note 1)		1,820,758
Deposits		27,577

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Property and equipment, net (Note 2 and 13)	253,748	
Patents and trademarks, net of \$79,779 and \$29,167 of accumulated amortization (Notes 1 and 13)	701,758	
Total assets	\$ 4,071,182	\$
Liabilities and Members' Equity		
Current Liabilities:		
Accounts payable and accrued expenses (Notes 4 and 8)	\$ 458,473	\$
Line of credit (Note 3)	-	
Line of credit - related party (Note 3)	245,000	
Commissions and royalties payable (Note 7)	224,164	
Current maturities of long-term debt - related party (Note 4)	591,568	
Total current liabilities	1,519,205	
Long-Term Debt - related party, less current maturities (Note 4)	621,257	
Total liabilities	2,140,462	
Commitments and Contingencies (Notes 5, 7, 8 and 11)		
Members' Equity (Note 6 and 13)	1,930,720	
Total liabilities and members' equity	\$ 4,071,182	\$

See accompanying independent auditors' report, summary of accounting policies and notes to financial statements.

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BAYVIEW TECHNOLOGY GROUP, LLC

STATEMENTS OF OPERATIONS

	Year Ended December 31, 2002 (Successor)	Period from June 1, 2001 (Commencement of Operations) through December 31, 2001 (Successor)
Revenues (Note 10)	\$ 5,793,029	\$ 2,364,787
Cost of Sales (Note 8)	2,500,803	1,288,412
Gross Profit	3,292,226	1,076,375
Operating Expenses:		
Selling (Note 7)	1,228,465	456,512
General and administrative	1,323,979	709,652
Depreciation and amortization	118,407	116,919
Total operating expenses	2,670,851	1,283,083

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Income (loss) from operations	621,375	(206,708)
Other (expense):		
Interest expense	(123,540)	(73,685)
Net income (loss)	\$ 497,835	\$ (280,393)

See accompanying independent auditors' report, summary of accounting policies and notes to financial statements.

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BAYVIEW TECHNOLOGY GROUP, LLC

STATEMENTS OF MEMBERS' EQUITY/STOCKHOLDER'S EQUITY

PERIOD FROM JANUARY 1, 2001 THROUGH MAY 31, 2001 (PREDECESSOR)

	Common Stock		Retained Earnings	Stockholders' Equity
	Shares	Amount		
Balance, January 1, 2001	250,000	\$ 25,000	\$ 93,602	\$ 118,602
Net income for the period	-	-	41,591	41,591
Balance, May 31, 2001	250,000	\$ 25,000	\$ 135,193	\$ 160,193

PERIOD FROM JUNE 1, 2001 (COMMENCEMENT OF OPERATIONS) THROUGH DECEMBER 31, 2002 (SUCCESSOR)

	Total Members' Equity
Balance, June 1, 2001 (Commencement of Operations)	\$ -
Cash received for 60,000 membership units issued to founders (Note 6)	1,000
Issuance of 35,000 membership units, net of issuance costs of \$37,722 (Note 6)	1,712,278
Net loss for the period	(280,393)
Balance, December 31, 2001	\$ 1,432,885
Net income for the period	497,835
Balance, December 31, 2002	\$ 1,930,720

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See accompanying independent auditors' report, summary of accounting policies and notes to financial statements.

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BAYVIEW TECHNOLOGY GROUP, LLC

STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2002 (Successor)	Period from June 1, 2001 (Commencement of Operations) through December 31, 2001 (Successor)
Cash flows from Operating Activities		
Net income (loss) for the period	\$ 497,835	\$ (280,393)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	118,407	116,919
Decrease (increase) in current assets:		
Accounts receivable	112,081	(954,592)
Inventories	120,638	(247,134)
Prepaid expenses and other current assets	(23,670)	(13,468)
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	(24,974)	347,000
Commissions and royalties payable	(7,615)	231,779
Net cash provided by (used in) operating activities	792,702	(799,889)
Cash flows from Investing Activities		
Purchases of property and equipment	(92,145)	(168,478)
Acquisition of the assets of Bayview Technology Group, Inc (Note 2)	-	(1,023,959)
Investment in patents and trademarks	(31,537)	-
Other deposits	15,095	(38,288)
Net cash used in investing activities	(108,587)	(1,230,725)
Cash flows from Financing Activities		
Borrowings of bank revolving line of credit	795,000	520,578
Payments on bank revolving line of credit	(1,115,578)	(200,000)
Proceeds from issuance of membership units	-	1,751,000
Payment of issuance costs	-	(37,722)
Payments on long-term debt	(557,175)	-
Borrowings on line of credit - related party	470,000	-
Payments on line of credit - related party	(225,000)	-
Net cash provided by (used in) financing activities	(632,753)	2,033,856
Net (decrease) increase in cash	51,362	3,242
Cash, beginning of period	3,242	-



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Cash, end of period	\$	54,604	\$	3,242
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See accompanying independent auditors' report, summary of accounting policies and notes to financial statements.

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BAYVIEW TECHNOLOGY GROUP, LLC

SUMMARY OF ACCOUNTING POLICIES

ORGANIZATION, DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Bayview Technology Group LLC (the "Company" or "Successor") was organized as a Limited Liability Company ("LLC") under the laws of the State of Colorado in December 2000. In July 2003, The Company changed its name to BT LLC. The Company acquired Bayview Technology Group, Inc. (the "Predecessor," subsequently changing its name to Bayview Ventures, Inc.) on May 31, 2001 (effectively June 1, 2001) and began operations on June 1, 2001. The Company is engaged in the sale and distribution of energy saving devices, more particularly, plug load controllers. The accompanying financial statements reflect the results of operations and cash flows of the Predecessor for the period January 1, 2001 through May 31, 2001.

GOING CONCERN AND MANAGEMENT'S PLANS

As more fully described in Note 13, the Company sold substantially all of its long-lived assets in July 2003 and does not currently anticipate continuing its operations. Based on projections, management currently estimates that the Company will not have the ability to meet all of its obligations as they come due. The Company is attempting to raise additional funds from its members to meet this budgeted shortfall but has not received a firm commitment from any of its members to provide the necessary funding. These conditions give rise to substantial doubt about the Company's ability to continue as a going concern. In response to this condition, management is actively trying to secure the necessary additional funds from its members, reduce or eliminate all non-essential costs, and negotiate extensions and reductions in the Company's obligations with various creditors. No assurances can be provided that the Company will be successful in executing its plans.

The financial statements do not include any adjustments relating to the recoverability or classification of asset carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

INVENTORIES

Inventories are stated at the lower of cost (using the first in, first out method) or market, and consist primarily of saleable finished goods including electronic components and devices.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Provisions for depreciation are computed using the straight-line method over estimated useful lives ranging from 3 to 7 years. Maintenance and repairs are charged to expense as incurred.

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#### INCOME TAXES

There is no provision for income taxes because, as a limited liability company, the Company's taxable income is passed through to its members who pay income taxes on their proportionate share of the taxable income.

#### STATEMENTS OF CASH FLOWS

The Company considers all short-term investments purchased with maturity of three months or less and money market accounts to be cash equivalents.

#### PATENTS AND TRADEMARKS

Patents and trademarks were recorded at cost less accumulated amortization, and were amortized using the straight-line method over their estimated life of fifteen years.

Amortization expense on patents and trademarks was \$50,612 for the year ended December 31, 2002 and \$29,167 for the period from June 1, 2001 (Commencement of Operations) through December 31, 2001.

#### GOODWILL

Goodwill represents the excess of the cost over the fair value of net assets acquired at the date of acquisition (Note 1) and was being amortized on the straight-line method over fifteen years through December 31, 2001. (See Summary of Account Policies - Recent Accounting Pronouncements for treatment of goodwill as of January 1, 2002). Goodwill amortization was \$73,672 for the period ended December 31, 2001.

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#### LONG-LIVED ASSETS AND LONG-LIVED ASSETS FOR SALE

Long-lived assets, including property and equipment and patents and trademarks are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flow from the use of the assets and its eventual disposition is less than the carrying amount of the assets, an impairment loss is recognized and measured using the asset's fair value.

In the period when the plan of sale criteria of Statement of Financial Accounting Standards ("SFAS") No. 144 are met, long-lived assets are reported as held for sale, depreciation and amortization cease, and the assets are reported at the lower of carrying value or fair value less costs to sell.

#### USE OF ESTIMATES

The preparation of the Company's financial statements, in conformity with accounting principles generally accepted in the United States of America, requires the Company's management to make estimates and assumptions that effect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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### CONCENTRATION OF CREDIT RISK

The Company's financial instruments that are exposed to concentrations of credit risk consist of cash and cash equivalent balances in excess of the insurance provided by governmental insurance authorities. The Company's cash and cash equivalents are placed with financial institutions and are primarily in demand deposit accounts.

Concentrations of credit risk with respect to accounts receivable are associated with many customers dispersed across geographic areas. The Company reviews a customer's credit history before extending credit and establishes an allowance for doubtful accounts based upon the credit risk of specific customers, historical trends and other information. No allowance for doubtful accounts was established at December 31, 2002 and 2001.

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### ADVERTISING COSTS

The Company expenses advertising costs as incurred. Advertising costs amounted to \$54,525 for the year ended December 31, 2002 and \$13,080 for the period from June 1, 2001 (Commencement of Operations) through December 31, 2001.

### REVENUE RECOGNITION

The Company recognizes revenue when its products are shipped to its customers, at which time title passes to the customer and the risks and rewards of ownership are transferred. Revenue from certain sales programs with utility organizations are not recognized until the product has been installed at designated locations and the Company has no remaining performance obligation.

### RESEARCH AND DEVELOPMENT

Research and development expenditures are expensed in the period in which incurred. For the period from June 1, 2001 (Commencement of Operations) through December 31, 2001, research and development expenses were \$9,432 and for the year ended December 31, 2002 they were \$32,676.

### STOCK OPTION PLAN

The Company has a stock-based employee compensation plan, which is described more fully in Note 6. The Company accounts for this plan under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation is reflected in the Company's net income (loss), as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant. Had the Company employed the fair value method of accounting prescribed by SFAS No. 123, Accounting for Stock-Based Compensation, the pro forma net income (loss) of the Company would not be materially different than the reported net income (loss) for any period presented.

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### RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (the "FASB") finalized

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SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS No. 141 also requires that companies recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria and, upon adoption of SFAS No. 142, that companies reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS No. 141. SFAS No. 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS No. 142 requires that companies identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS No. 142.

Effective January 1, 2002 the Company adopted SFAS No. 142. As of December 31, 2001 the Company had \$1,820,758 in unamortized goodwill. Upon the adoption of SFAS No. 142, goodwill is no longer amortizable and will be subject to impairment testing. As a result, the Company has not amortized goodwill for the year ended December 31, 2002. Had the Company not amortized goodwill during the period ended December 31, 2001, amortization expense would have decreased by \$73,672 and net loss would have decreased by \$73,672 to (\$206,721).

In accordance with SFAS No. 142, the Company completed a transitional impairment test and an annual impairment test of goodwill and has determined goodwill and other intangible assets were not impaired. Goodwill will be tested annually and whenever events and circumstances occur indicating that the asset may be impaired.

Upon the adoption of SFAS No. 142, the Company evaluated the useful lives of existing intangible assets and determined that the existing useful lives are appropriate.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires the fair value of a liability for an asset retirement obligation to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for the Company for fiscal years beginning after June 15, 2002. The Company's adoption of this statement had no material impact on the Company's financial statements.

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### RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value, less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, is to be applied prospectively.

In April 2002, the FASB issued SFAS No. 145, Rescissions of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections. SFAS No. 145 rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of

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Debt, and an amendment of that Statement, SFAS No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred that at the date of commitment to an exit or disposal plan. Examples of such costs covered by the standard include lease termination costs and certain employee severance costs associated with a restructuring, discontinued operation, plant closing or other exit or disposal activity. SFAS No. 146 is effective prospectively for exit and disposal activities initiated after December 31, 2002. As the provisions of SFAS No. 146 are to be applied prospectively after its adoption date, the Company cannot determine the potential effects that adoption of SFAS No. 146 will have on its future results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure-an Amendment of FASB Statement No. 123. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company adopted the disclosure requirements effective December 31, 2002 in its financial statements.

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BAYVIEW TECHNOLOGY GROUP, LLC

NOTES TO FINANCIAL STATEMENTS

### 1. BUSINESS COMBINATIONS

On May 31, 2001 the Company acquired substantially all of the assets of Bayview Ventures, Inc., a California corporation, for a purchase price of \$2,906,447. The acquisition has been accounted for using the purchase method and the results of operations are reflected in the financial statements from the date of acquisition. Pursuant to the purchase agreement, the Company paid \$1,000,000 in cash, assumed liabilities of \$136,447 and executed a note to the seller in the amount of \$1,770,000 (see Note 4). The Company incurred costs of \$23,959 in connection with the acquisition. Amounts in excess of the fair market value of the assets acquired are accounted for as goodwill. The following represents the allocation of the purchase price:

	Amount
Accounts receivable	\$ 15,886
Inventory	190,706
Deposits	4,384
Fixed assets	75,000
Patents and trademarks	750,000
Goodwill	1,894,430
	-----
	\$ 2,930,406
	=====

## 2. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31	
	2002	2001
Equipment	\$ 237,425	\$ 147,846
Furniture and fixtures	98,198	95,632
	-----	-----
	335,623	243,478
Less accumulated depreciation	81,875	14,080
	-----	-----
	\$ 253,748	\$ 229,398
	=====	=====

Depreciation expense for the year ended December 31, 2002 and for the period from June 1, 2001 (Commencement of Operations) through December 31, 2001 was \$67,795 and \$14,080.

## 3. LINE OF CREDIT AND LINE OF CREDIT - RELATED PARTY

The Company had a \$500,000 revolving line of credit with a bank. The line of credit was entered into on August 3, 2001 and expired on August 3, 2002. The line of credit bore interest at a variable rate that was calculated based on an index, which is the Bank Base Rate plus 1.5%. During the period August 3, 2001 through December 31, 2001 the rates ranged from 6.5% to 8.5% per annum. The Line of Credit had an outstanding balance of \$320,578 at December 31, 2001 and was secured by substantially all of the assets of the Company. In addition, two of the Company's members (who were also executive officers of the Company) guaranteed the line of credit and pledged personal assets as additional security.

Effective September 30, 2002, the Company entered into a new \$500,000 line of credit agreement with Bayview Ventures, Inc. (Note 1). The line of credit expired on June 1, 2003. The line of credit bears interest at the prime rate as published in the Wall Street Journal, plus 1.75%. The line of credit is secured by substantially all of the assets of the Company. In addition, one of the Company's members (who is also an executive officer) has guaranteed the line of credit and pledged personal assets as additional security. The balance of the line of credit at December 31, 2002 was \$245,000 and the interest rate was 6.259%.

Effective June 1, 2003, Bayview Ventures, Inc. agreed to extend the repayment date of the Line of Credit Agreement to November 8, 2003.

Interest expense recognized in connection with the line of credit - related party, was \$6,493 for the year ended December 31, 2002. Accrued interest payable in connection with the line of credit - related party was \$1,282 at December 31, 2002.

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### 4. LONG-TERM DEBT - RELATED PARTY

Long-term debt consists of a note payable to Bayview Ventures, Inc. (see Note 1). The sole stockholder of Bayview Ventures, Inc. is an employee of the Company. The note was in the original amount of \$1,770,000 and bears interest at the rate of 6.9% per annum and was originally payable in three annual installments plus accrued interest beginning on June 1, 2002. The note is secured, subject to certain subordination, by all inventories, accounts receivable, and substantially all of the assets acquired in the business combination (Note 1).

Effective April 30, 2002, the terms of the note payable were amended. An initial payment of \$250,000 was made June 30, 2002. Subsequent payments are to be made based on 50% of excess cash flow defined as earnings before interest, taxes, depreciation and amortization less fixed charges (interest expense for the period of determination plus minimum rent payments under operating leases) and total capital expenditures. The calculation is to be completed by the tenth day of the subsequent month and reviewed and agreed to by the note holder. Payments will be made immediately thereafter. During the year ended December 31, 2002, the Company made principal payments of \$557,175. Included in accounts payable and accrued interest at December 31, 2002 and 2001 is \$43,807 and \$65,730 of accrued interest due on the note.

The term of the note agreement was modified in both May and June 2003, pursuant to which the maturity date of the note payable was extended to July 14, 2003.

Bayview Ventures, Inc. agreed to modify the repayment terms of the principal and accrued interest on the note payable in connection with the acquisition of certain assets of the Company by USA Technologies, Inc. ("USAT"). (See Note 13)

In accordance with the modified terms, in July 2003, the Company paid Bayview Ventures, Inc. approximately \$631,000 and 1,200,000 shares of USAT common stock having an agreed upon value of \$333,333. The remaining balance owed to Bayview Ventures, Inc. (including both principal and accrued interest) of \$333,333 is to be repaid no later than November 8, 2003.

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### 5. LEASE OBLIGATIONS

The Company leases office space under three operating lease agreements. The lease agreements generally require the Company to pay certain operating expenses, maintenance, and property taxes. The lease agreements are noncancellable. Two agreements expire in June 2005 and one agreement expires in October 2003.

Rent expense was \$48,324 for the period from June 1, 2001 (Commencement of Operations) through December 31, 2001 and \$111,633 for the year ended December 31, 2002.

Future minimum lease payments under the noncancellable operating leases are as follows:

Years Ending

December 31,	Amount
--------------	--------

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2003	\$	121,560
2004		101,172
2005		51,864
		-----
	\$	274,596
		=====

6. MEMBERS' EQUITY

The Company issued 60,000 units to its founding members, for \$1,000 at the formation of the Company.

Pursuant to the terms of a private placement memorandum ("PPM") in 2001, the Company issued 35,000 membership units at a per unit price of \$50 for total proceeds of \$1,750,000. Issuance expenses in connection with the offering were \$37,722. Under terms of the PPM, the Company guaranteed the investors that the value of their units would appreciate at no less than a 20% cumulative return over the three-year period following the issuance of the units. In the event that the overall value (as determined by a calculation defined in the PPM) of the Company in June 2004 or the value received by the Company upon the sale of its assets prior to that time does not provide for the minimum return, the investors are to receive additional units as determined by a calculation contained in the PPM. The PPM also granted the investors the right, after the payment of amounts due to Bayview Ventures, Inc. (see Note 4), to an annual preferential right to distributions of \$200,000. No such distributions have been paid through 2002.

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6. MEMBERS' EQUITY (CONTINUED)

Option Plan

Effective May 30, 2001, the Company adopted The Bayview Technology Group, LLC 2001 Membership Option Plan (the "Plan"). The purpose of the Plan is to provide a benefit to key employees and management. Participants of the Plan shall be recommended by the President and Chief Executive Officer of the Company, and the issuance of unit options are to be approved by the Personnel and Compensation Committee of the Board of Directors. The membership units, which may be delivered under the Plan, shall not exceed an aggregate of 15,000 units. During 2002, options to purchase 4,750 membership units at a per unit price of \$52.63 were granted. In March 2003, 1,189 of the options vested and 132 options will vest each month thereafter until all 4,750 become vested. The options expire in June 2007. The aggregate fair value of the options granted (determined using the Black-Scholes option pricing model and assuming no dividends or volatility, a discount rate of 4.5% and an expected life of five years) was estimated to be approximately \$37,000. Upon a merger of the Company or the sale of substantially all of its assets, any unvested options become immediately vested and exercisable. The options became fully vested in July 2003 upon the closing of the USAT transaction (see Note 13).

Pro forma results of operations, assuming the Company had used the fair value method of accounting for the 2002 option grant, are not presented as they do not differ materially from the Companys historical results.

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### 7. EMPLOYMENT AGREEMENTS

The Company has an employment agreement with the sole stockholder of Bayview Ventures, Inc. (Note 1). Under the terms of the agreement, the Company is required to pay a royalty to Bayview Ventures, Inc., based upon the sale of its devices. The Company is also required to pay the employee an annual base salary of \$126,240. During the period ended December 31, 2001, the Company paid Bayview Ventures, Inc. \$24,027 in royalties and at December 31, 2001 royalties payable to Bayview Ventures, Inc. were \$179,174. During the year ended December 31, 2002, the Company paid Bayview Ventures, Inc. \$374,136 in royalties and at December 31, 2002, royalties payable to Bayview Ventures, Inc. totaled \$157,271.

Effective May 20, 2002, the Company entered into an employment agreement with an employee. Under the terms of the agreement, the Company is required to pay the employee a base salary of \$116,000 during the initial one-year term of the employment period (as defined in the agreement). Employment is to be reviewed annually for renewal and/or renegotiation. The employee also is to receive a commission of 1.25% of certain sales revenue as defined in the agreement.

### 8. SUPPLIER AGREEMENT

Effective July 1, 2001, the Company entered into an agreement with an unrelated entity for the manufacture of the Company's electronic devices. The agreement's initial term is two years, and the agreement automatically renews for subsequent one-year periods unless either party provides written notification of termination. At June 30, 2003, the agreement is still in effect. In connection with the agreement, the Company is required to provide the entity with thirteen-week production forecasts and the Company is obligated to purchase the manufactured devices and reimburse the entity, under certain terms of the agreement. During the period from June 1, 2001 (Commencement of Operations) through December 31, 2001, the Company purchased \$309,775 from the entity, and at December 31, 2001, the Company owed the entity \$197,169. During the year ended December 31, 2002, the Company purchased \$1,817,383 from the entity and at December 31, 2002, the Company owed the entity \$285,656.

### 9. AGREEMENTS WITH UTILITY ORGANIZATIONS

The Company has an agreement with the Bonneville Power Administration ("BPA") that expired April 30, 2003 to provide and install BPA's electronic devices. Under the terms of this agreement, the Company is to receive a negotiated price per unit and installation fee per unit, for each device installed. The Bonneville Power Administration contract provides for total purchase price and fees of \$3,000,000. The agreement was not renewed.

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### 10. SIGNIFICANT CONTRACTS

The Company has received greater than 10% of its revenues from certain customers. A summary of significant customers is as follows:

Revenues:	December 31	
	2002	2001
Customer A	36%	33%
Customer B	12%	11%
Customer C	-%	13%

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Customer D	-%	16%
-----		
	December 31	
Accounts Receivable:	2002	2001
-----		
Customer A	2%	79%
Customer B	44%	4%
Customer C	-%	9%
Customer D	-%	7%
-----		

11. CONTINGENCIES

In February 2003, a fire occurred in a facility in Idaho, in which the Company's product was installed days before the fire. The insurance company representing the company that occupied the facility is investigating the cause of the fire. The Company has informed their insurance carrier of the incident and the Company is currently in the process of investigating the matter and to what extent, if any, the Company may be held responsible. The outcome of this contingency is currently unknown. Any potential liability may be covered by the Company's insurance carrier. No liability for the outcome of this contingency has been recorded in the accompanying financial statements.

The Company occupied premises in California through June 1, 2002, at which time the premises were vacated. The landlord is seeking rent from the Company for the period from June 2002 through October 2003 (lease termination date), in the aggregate amount of approximately \$62,000. The Company does not believe it is responsible for this amount, as it never formally assumed the lease. Bayview Ventures, Inc. was the original lessee. At December 31, 2002, the Company has accrued \$26,000, which represents the Company's best estimate of its expected liability to settle the matter.

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12. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31, 2002	Period from June 1, 2001 (Commencement of Operations) through December 31, 2001
Cash paid for interest	\$ 142,928	\$ 5,744
=====		

13. SALE OF OPERATIONS

On July 11, 2003, the Company sold substantially all of its fixed assets and intellectual property (including patents and trademarks), as well as other various assets, to USAT in exchange for 20,000,000 shares of USAT common stock. Additionally, USAT paid approximately \$631,000 to Bayview Ventures, Inc., representing the amount currently due to Bayview Ventures, Inc. pursuant to its

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note payable from the Company (see Note 4). Pursuant to the sale agreement, the shares of USAT common stock received by the Company cannot be sold for a one-year period, after which time a monthly limitation will be placed on the maximum number of shares, that may be sold.

In connection with the sale, the Company issued an additional 9,534 units to investors in the Company's 2001 PPM pursuant to guaranteed return provisions contained in the PPM (see Note 6). Additionally, the Company granted 10,250 units to two employees.

Management determined that the plan of sale criteria in SFAS No. 144 was met in April 2003, at which time depreciation and amortization of these assets ceased and the assets began to be reported at the lower of their carrying amount or fair value less cost to sell.

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### BAYVIEW TECHNOLOGY GROUP, LLC

#### BALANCE SHEET (Unaudited)

	June 30, 2003 -----
<b>Assets</b>	
<b>Current assets:</b>	
Cash	\$ 54,201
Accounts receivable	1,295,947
Inventories	381,486
Prepaid expenses and other current assets	16,324
	-----
Total current assets	1,747,958
Goodwill	1,820,758
Deposits	16,977
Long-Lived Assets Held for Sale	
Property and equipment, net	223,820
Patents and trademarks, net of \$106,689 of accumulated amortization	689,641
	-----
Total assets	\$ 4,499,154 =====
<b>Liabilities and Members' Equity</b>	
<b>Current liabilities:</b>	
Accounts payable and accrued expenses	\$ 737,569
Line of credit - related party	438,000
Commissions and royalties payable	259,401
Current maturities of long-term debt - related party	591,568
	-----
Total current liabilities	2,026,538
Long-term debt - related party, less current maturities	621,257
	-----
Total Liabilities	2,647,795

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Members' Equity	1,851,359
	-----
Total liabilities and members' equity	\$ 4,499,154
	=====

See accompanying notes.

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BAYVIEW TECHNOLOGY GROUP, LLC

STATEMENTS OF OPERATIONS  
(Unaudited)

	Six months ended June 30	
	2003	2002
	-----	
Revenues	\$ 2,514,735	\$ 2,673,642
Cost of Sales	1,143,397	1,237,622
	-----	
Gross Profit	1,371,338	1,436,020
Operating expenses:		
Selling	692,049	490,518
General and administrative	642,755	688,373
Depreciation and amortization	69,932	53,388
	-----	
Total operating expenses	1,404,736	1,232,279
	-----	
Income (loss) from operations	(33,398)	203,741
Other expense:		
Interest expense	(45,963)	(54,959)
	-----	
Net income (loss)	\$ (79,361)	\$ 148,782
	=====	

See accompanying notes.

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BAYVIEW TECHNOLOGY GROUP, LLC

STATEMENTS OF MEMBERS' EQUITY  
(Unaudited)

	Six months ended June 30,	
	2003	2002
	-----	
Balance, beginning of period	\$ 1,930,720	\$ 1,432,885

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Net income (loss) for period	(79,361)	148,782
	-----	-----
Balance, end of period	\$ 1,851,359	\$ 1,581,667
	=====	=====

See accompanying notes.

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BAYVIEW TECHNOLOGY GROUP, LLC

STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six months ended Jun 2003	
	-----	
Cash flows from operating activities		
Net income (loss)	\$ (79,361)	\$
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	69,932	
Decrease (increase) in current assets:		
Accounts receivable	(437,550)	
Inventories	(64,284)	
Prepaid expenses and other current assets	20,814	
Increase in current liabilities:		
Accounts payable and accrued expenses	279,095	
Commissions and royalties payable	35,237	
	-----	
Net cash provided by (used in) operating activities	(176,117)	
Cash flows from investing activities		
Purchase of property and equipment	(2,493)	
Investment in patents and trademarks	(14,793)	
Deposit on software under development	-	
	-----	
Net cash used in investing activities	(17,286)	
Cash flows from financing activities		
Borrowings of bank revolving line of credit	-	
Payments on bank revolving line of credit	-	
Payments on long-term debt	-	
Borrowings on Line of Credit-Related Party	693,000	
Payments on Line of Credit-Related Party	(500,000)	
	-----	
Net cash provided by (used in) financing activities	193,000	
	-----	
Net increase (decrease) in cash	(403)	
Cash, beginning of period	54,604	
	-----	
Cash, end of period	\$ 54,201	\$
	=====	

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Supplemental disclosures of cash flow information:

Interest paid

\$ 9,492 \$

=====

See accompanying notes.

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BAYVIEW TECHNOLOGY GROUP, LLC

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SIX MONTHS ENDED JUNE 30, 2003 AND 2002  
(Unaudited)

ORGANIZATION, DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Bayview Technology Group, LLC (the "Company" was organized as a Limited Liability Company ("LLC") under the laws of the State of Colorado in December 2000. The Company is engaged in the sale and distribution of energy saving devices, more particularly, plug load controllers.

GOING CONCERN AND MANAGEMENT'S PLANS

As more fully described in Note 8, the Company sold substantially all of its long-lived assets in July 2003 and does not currently anticipate continuing its operations. Based on projections, management currently estimates that the Company will not have the ability to meet all of its obligations as they come due. The Company is attempting to raise additional funds from its members to meet this budgeted shortfall but has not received a firm commitment from any of its members to provide the necessary funding. These conditions give rise to substantial doubt about the Company's ability to continue as a going concern. In response to this condition, management is actively trying to secure the necessary additional funds from its members, reduce or eliminate all non-essential costs, and negotiate extensions and reductions in the Company's obligations with various creditors. No assurances can be provided that the Company will be successful in executing its plans.

The financial statements do not include any adjustments relating to the recoverability or classification of asset carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

INTERIM FINANCIAL INFORMATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

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### INVENTORIES

Inventories are stated at the lower of cost (using the first in, first out method) or market, and consist primarily of saleable finished goods including electronic components and devices.

### PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Provisions for depreciation are computed using the straight-line method over estimated useful lives ranging from 3 to 7 years. Maintenance and repairs are charged to expense as incurred.

Effective in April 2003, property and equipment was reflected as held for sale and reported at the lower of carrying value or fair value, less cost to sell.

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### INCOME TAXES

There is no provision for income taxes because, as a limited liability company, the Company's taxable income is passed through to its members who pay income taxes on their proportionate share of the taxable income.

### STATEMENTS OF CASH FLOWS

The Company considers all short-term investments purchased with maturity of three months or less and money market accounts to be cash equivalents.

### PATENTS AND TRADEMARKS

Patents and trademarks were recorded at cost less accumulated amortization, and were amortized using the straight-line method over fifteen years.

Amortization expense on patents and trademarks was \$26,911 and \$25,000 for the six months ended June 30, 2003 and 2002, respectively. Commencing in April 2003, patents and trademarks are considered to be held for sale and carried at the lower of carrying value or fair value less costs to sell.

### GOODWILL

Goodwill represents the excess of the cost over the fair value of net assets acquired at the date of acquisition. Goodwill is not amortized but is tested annually to determine whether there is any impairment to its carrying value. Impairment testing is also done if events or circumstances arise indicating that impairment may have occurred.

### LONG-LIVED ASSETS AND LONG-LIVED ASSETS FOR SALE

Long-lived assets, including property and equipment and patents and trademarks are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flow from the use of the assets and its eventual disposition is less than the carrying amount of the assets, an impairment loss is recognized and measured using the asset's fair value.

In the period when the plan of sale criteria of SFAS No. 144 are met, long-lived assets are reported as held for sale, depreciation and amortization cease, and

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the assets are reported at the lower of carrying value or fair value less costs to sell.

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### USE OF ESTIMATES

The preparation of the Company's financial statements, in conformity with accounting principles generally accepted in the United States of America, requires the Company's management to make estimates and assumptions that effect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting periods. Actual results could differ from those estimates.

### ADVERTISING COSTS

The Company expenses advertising costs as incurred. Advertising costs amounted to \$53,932 and \$15,631 for the six months ended June 30, 2003 and 2002, respectively.

### REVENUE RECOGNITION

The Company recognizes revenue when its products are shipped to its customers, at which time title passes to the customer and the risks and rewards of ownership are transferred. Revenue from certain sales programs with utility organizations are not recognized until the product has been installed at designated locations and the Company has no remaining performance obligation.

### RESEARCH AND DEVELOPMENT

Research and development expenditures are expensed in the period in which incurred. Research and development expenses were \$39,370 and \$14,147 for the six months ended June 30, 2003 and 2002, respectively.

### STOCK OPTION PLAN

The Company has a stock-based employee compensation plan. The Company accounts for this plan under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation is reflected in the Company's net income (loss), as all options granted under this plan had an exercise price equal to the market value of the underlying membership units on the date of grant. Had the Company employed the fair value method of accounting prescribed by SFAS No. 123, Accounting for Stock-Based Compensation, the pro forma net income (loss) of the Company for the six months ended June 30, 2003 and 2002 would not have been materially different from the reported net income (loss).

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BAYVIEW TECHNOLOGY GROUP, LLC



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## SELECTED NOTES TO FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2003 AND 2002  
(Unaudited)

### 1. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2003 consisted of the following:

Equipment	\$ 248,547
Furniture and fixtures	98,197
	-----
	346,744
Less accumulated depreciation	122,924
	-----
	\$ 223,820
	=====

Depreciation expense was \$43,021 and \$28,388 for the six months ended June 30, 2003 and 2002, respectively.

### 2. LINE OF CREDIT - RELATED PARTY

Effective September 30, 2002, the Company entered into a \$500,000 line of credit agreement with Bayview Ventures, Inc. The line of credit expired on June 1, 2003. The line of credit bears interest at the prime rate as published in the Wall Street Journal, plus 1.75%. The line of credit is secured by substantially all of the assets of the Company. In addition, one of the Company's members (who is also an executive officer) has guaranteed the line of credit and pledged personal assets as additional security.

Effective June 1, 2003, Bayview Ventures, Inc. agreed to extend the repayment date of the line of Credit Agreement to November 8, 2003. At June 30, 2003, the balance of the Line of Credit was \$438,000 and the interest rate was 5.75%.

Interest expense recognized in connection with the line of credit - related party, was \$10,422 for the six months ended June 30, 2003.

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### 3. LONG-TERM DEBT - RELATED PARTY

Long-term debt at June 30, 2003 consists of a note payable to Bayview Ventures, Inc. The sole stockholder of Bayview Ventures, Inc. is an employee of the Company. The note was in the original amount of \$1,770,000 and bears interest at the rate of 6.9% per annum and was originally payable in three annual installments plus accrued interest beginning on June 1, 2002. The note is secured, subject to certain subordination, by all inventories, accounts receivable, and substantially all of the assets acquired from Bayview Ventures, Inc.

Effective April 30, 2002, the terms of the note payable were amended. An initial payment of \$250,000 was made June 30, 2002. Subsequent payments are to be made based on 50% of excess cash flow defined as earnings before interest, taxes,

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depreciation and amortization less fixed charges (interest expense for the period of determination plus minimum rent payments under operating leases) and total capital expenditures. The calculation is to be completed by the tenth day of the subsequent month and reviewed and agreed to by the note holder. Payments will be made immediately thereafter. During the six months ended June 30, 2003, the Company made no principal payments on this debt. Included in accounts payable at June 30, 2003 is \$81,536 of accrued interest due on the note.

The term of the note agreement was modified in both May and June 2003, pursuant to which the maturity date of the note payable was extended to be July 14, 2003.

Bayview Ventures, Inc. agreed to modify the repayment terms of the principal and accrued interest on the note payable in connection with the acquisition of certain assets of the Company by USA Technologies, Inc. ("USAT").

In accordance with the modified terms, in July 2003, the Company paid Bayview Ventures, Inc. approximately \$631,000 and 1,200,000 shares of USAT common stock having an agreed upon value of \$333,333. The remaining balance owed to Bayview Ventures, Inc. (including both principal and accrued interest) of \$333,333 is to be repaid no later than November 8, 2003.

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#### 4. EMPLOYMENT AGREEMENTS

The Company has an employment agreement with the sole stockholder of Bayview Ventures, Inc. Under the terms of the agreement, the Company is required to pay a royalty to Bayview Ventures, Inc., based upon the sale of its devices. The Company is also required to pay the employee an annual base salary of \$126,240. During the six months ended June 30, 2003 and 2002, royalties earned by Bayview Ventures, Inc. were \$172,107 and \$190,123, respectively. Royalties payable to Bayview Ventures, Inc. as of June 30, 2003 totaled \$153,462.

#### 5. SUPPLIER AGREEMENT

Effective July 1, 2001, the Company entered into an agreement with an unrelated entity for the manufacture of the Company's electronic devices. The agreement's initial term is two years, and the agreement automatically renews for subsequent one-year periods unless either party provides written notification of termination. In connection with the agreement, the Company is required to provide the entity with thirteen-week production forecasts and the Company is obligated to purchase the manufactured devices and reimburse the entity, under certain terms of the agreement. During the six months ended June 30, 2003 and 2002, the Company purchased \$844,068 and \$740,864, respectively from the entity.

#### 6. AGREEMENTS WITH UTILITY ORGANIZATIONS

The Company has an agreement with the Bonneville Power Administration ("BPA") that expired April 30, 2003 to provide and install BPA's electronic devices. Under the terms of this agreement, the Company is to receive a negotiated price per unit and installation fee per unit, for each device installed. The Bonneville Power Administration contract provides for total purchase price and fees of \$3,000,000. The agreement was not renewed.

## 7. CONTINGENCIES

In February 2003, a fire occurred in a facility in Idaho, in which the Company's product was installed days before the fire. The insurance company representing the company that occupied the facility is investigating the cause of the fire. The Company has informed their insurance carrier of the incident and the Company is currently in the process of investigating the matter and to what extent, if any, the Company may be held responsible. The outcome of this contingency is currently unknown. Any potential liability may be covered by the Company's insurance carrier. No liability for the outcome of this contingency has been recorded in the accompanying financial statements.

The Company occupied premises in California through June 1, 2002, at which time the premises were vacated. The landlord is seeking rent from the Company for the period from June 2002 through October 2003 (lease termination date), in the aggregate amount of approximately \$62,000. The Company does not believe it is responsible for this amount, as it never formally assumed the lease. Bayview Ventures, Inc. was the original lessee. At June 30, 2003, the Company has accrued \$26,000, which represents the Company's best estimate of its expected liability to settle the matter.

## 8. SALE OF OPERATIONS

On July 11, 2003, the Company sold substantially all of its fixed assets and intellectual property (including patents and trademarks), as well as other various assets, to USAT in exchange for 20,000,000 shares of USAT common stock. Additionally, USAT paid approximately \$631,000 to Bayview Ventures, Inc., representing the amount currently due to Bayview Ventures, Inc. pursuant to its note payable from the Company. Pursuant to the sale agreement, the shares of USAT common stock received by the Company cannot be sold for a one-year period, after which time a monthly limitation will be placed on the maximum number of shares, that may be sold.

The long-lived assets covered by the sales agreement have been reported in the accompanying balance sheets as assets held for sale. Management determined that the plan of sale criteria in SFAS No. 144 was met in April 2003, at which time depreciation and amortization of these assets ceased and the assets began to be reported at the lower of their carrying amount or fair value less cost to sell.

## USA TECHNOLOGIES INC.

## UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

## BASIS OF PRESENTATION

The Pro Forma Consolidated Balance Sheet as of June 30, 2003 and the Pro Forma Consolidated Statements of Operations for the years ended June 30, 2003 and 2002, are based on the historical financial statements of USA Technologies, Inc. (USAT) and Bayview Technology Group, LLC (Bayview). The acquisition of the operating assets of Bayview has been accounted for using the purchase method of accounting. The Pro Forma Consolidated Balance Sheet as of June 30, 2003 has been prepared assuming the Bayview acquisition was completed on June 30, 2003.

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The Pro Forma Consolidated Statements of Operations for the years ended June 30, 2003 and 2002 have been prepared assuming that the Bayview acquisition was completed on July 1, 2002 and July 1, 2001, respectively.

The Unaudited Pro Forma financial statement information is presented for informational purposes only. The Pro Forma Consolidated Balance Sheet and Consolidated Statements of Operations do not purport to represent what USAT's actual financial position or results of operations would have been had the acquisition of Bayview occurred as of such dates, or to project USAT's financial position or results of operations for any period or date, nor does it give effect to any matters other than those described in the notes thereto. In addition, the allocations of purchase price to the assets and liabilities of Bayview are preliminary and the final allocations may differ from the amounts reflected herein. The Unaudited Pro Forma Consolidated Balance Sheet and Unaudited Pro Forma Consolidated Statements of Operations should be read in conjunction with USAT's financial statements and notes thereto, and the historical financial statements of Bayview which are included elsewhere herein.

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USA Technologies Inc.  
Pro Forma Consolidated Balance Sheet  
June 30, 2003  
(Unaudited)

	Bayview	USAT
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 54,201	\$ 2,384,455
Accounts receivable, net	1,295,947	414,796
Inventory	381,486	457,900
Subscriptions receivable	-	1,013,400
Prepaid expenses and other current assets	16,324	201,383
Investment	-	904,049
Total current assets	1,747,958	5,375,983
Property and equipment, net	223,820	943,784
Software development costs	-	998,660
Goodwill	1,820,758	7,945,580
Intangible assets	689,641	2,591,500
Other assets	16,977	37,174
Total assets	\$4,499,154	\$17,892,681
<b>Liabilities and shareholder's equity:</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 737,569	\$ 2,266,156
Accrued expenses	259,401	2,720,743
Current portion of long-term debt	1,029,568	830,674
Convertible Senior Notes	-	349,942

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Total current liabilities	2,026,538	6,167,515
Convertible Senior Notes, less current portion	-	7,808,469
Long-term debt, less current portion	621,257	224,614
Total liabilities	2,647,795	14,200,598
Shareholders'/Members' equity:		
Series A convertible preferred stock, no par value; 1,800,000 shares authorized; 524,452 issued and outstanding at June 30, 2003	-	3,715,246
Bayview Members' Equity, 95,000 units issued and outstanding at June 30, 2003	1,851,359	-
USA Common Stock, no par value; 400,000,000 shares authorized; 218,741,042 shares issued and outstanding shares at June 30, 2003	-	78,790,405
Accumulated deficit	-	(78,813,568)
Total shareholders'/members' equity	1,851,359	3,692,083
Total liabilities and shareholders'/members' equity	\$4,499,154	\$17,892,681

SEE NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

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USA Technologies, Inc.  
Pro Forma Consolidated Statement of Operations  
For the year ended June 30, 2003  
(Unaudited)

	Bayview	USAT	Acquisit Adjustme
	-----	----	-----
Revenue	\$ 5,634,122	\$ 2,853,068	
Operating expenses:			
Cost of sales	2,406,578	2,971,443	
General and administrative	1,407,380	7,194,684	
Compensation	1,300,977	4,973,210	
Depreciation and amortization	134,951	1,251,716	897,4
Loss on exchange of debt	-	1,521,654	
Total operating expenses	5,249,886	17,912,707	897,4
	384,236	(15,059,639)	(897,4
Other income (expense):			
Interest income	-	18,691	
Loss on Investment	-	(1,945,951)	
Interest expense	(114,544)	(4,978,600)	114,5
Total other income (expense)	(114,544)	(6,905,860)	114,5

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Net income (loss)	269,692	(21,965,499)	(782,9
Cumulative preferred dividends	-	(793,586)	
(Loss) income applicable to common shares	\$ 269,692	\$ (22,759,085)	\$ (782,9
Loss per common share (basic and diluted)		\$ (0.20)	
Weighted average number of common shares outstanding (basic and diluted)		111,790,358	20,170,

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USA Technologies, Inc.  
 Pro Forma Consolidated Statement of Operations  
 For the year ended June 30, 2002  
 (Unaudited)

	Bayview	USAT	Acquisiti Adjustmen
	-----	----	-----
Revenues	\$ 4,900,086	\$ 1,682,701	
Operating expenses:			
Cost of sales	2,459,033	4,062,901	
General and administrative	1,141,883	7,868,064	
Compensation	1,085,481	4,654,662	
Depreciation and amortization	154,723	440,238 (5)	836,8
Total operating expenses	4,841,120	17,025,865	836,8
	58,966	(15,343,164)	(836,8
Other income (expense):			
Interest income	-	15,791	
Interest expense	(119,254)	(1,987,434) (4)	119,2
Total other income (expense)	(119,254)	(1,971,643)	119,2
Net loss	(60,288)	(17,314,807)	(717,5
Cumulative preferred dividends	-	(822,561)	
Loss applicable to common shares	\$ (60,288)	\$ (18,137,368)	\$ (717,5
Loss per common share (basic and diluted)		\$ (0.50)	
Weighted average number of common shares outstanding (basic and diluted)		35,994,157	20,170,0

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NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(1) To record the acquisition of the operating assets of Bayview as defined in the asset purchase agreement consisting primarily of the patents and other intellectual property relating to Bayview's energy conservation devices for the vending industry and customer accounts. The purchase price is assumed to be paid by the issuance of 20,000,000 shares of USA Technologies, Inc. Common Stock (\$9,200,000) and payment of \$631,247 in cash. Costs associated with the acquisition include the issuance of 170,000 shares of USA Technologies, Inc. Common Stock (\$78,200) and an estimate of \$150,000 for payment of services rendered to USAT in connection with the acquisition. The total estimated investment of \$10,059,447 plus an estimated liability of \$40,000 assumed is allocated among the assets acquired - property and equipment (\$223,820), inventory (\$40,000), prepaid expenses (\$16,977), intangibles assets (\$9,500,000) and goodwill (\$318,650).

(2) The cash portion of the purchase price and costs associated with the acquisition are assumed to have been paid from USAT cash as of June 30, 2003.

(3) To eliminate amortization of intangible assets recorded by Bayview and to record amortization of intangible assets acquired in the acquisition as if the acquisition had occurred on July 1, 2002. Acquired intangible assets are comprised of patents, non-compete and consulting agreements and trademark and tradenames and are amortized over five and ten years.

(4) To eliminate interest expense recorded by Bayview as the related debt was not assumed by USAT under the asset purchase agreement.

(5) To eliminate amortization of intangible assets recorded by Bayview and to record amortization of intangible assets acquired in the acquisition as if the acquisition had occurred on July 1, 2001. Also to eliminate amortization of goodwill recorded by Bayview pertaining to periods prior to the adoption of Financial Accounting Standards Board Statement No. 142, Goodwill and other Intangible Assets, as to which goodwill is no longer amortized.

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PART II INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 24. Indemnification of Officers and Directors.

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

Section 1713 of the BCL permits a Pennsylvania corporation, by so providing in its By-laws, to eliminate the personal liability of a director for monetary

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

Item 25. Other Expenses of Issuance and Distribution.

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

Securities and Exchange Commission - Registration Fee . . . . .	\$ 1,080.54
Printing and Engraving Expenses . . . . .	\$ 3,919.46
Accounting Fees and Expenses . . . . .	\$12,500.00
Legal Fees and Expenses . . . . .	\$12,500.00
	-----
Total . . . . .	\$30,000.00
	=====

Item 26. Recent Sales of Unregistered Securities.

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

Private Placements.

During July 2001, the Company issued to La Jolla Cove Investors, Inc. a warrant to purchase up to 500,000 shares of Common Stock. The warrant can be exercised at any time in whole or in part within one year following the effectiveness of the registration statement covering the resale of the shares issuable upon exercise of the warrant. The exercise price of the warrant is the lower of \$1.00 or 80% of the lowest closing bid price of the Common Stock during the 20 trading days prior to exercise. The Company has agreed to prepare and file at its cost and expense a registration statement covering the resale of La Jolla of the shares underlying the warrant. At the time of the issuance of the warrant, La Jolla paid to the Company a non-refundable fee of \$50,000 to be credited towards the exercise price under the warrant. A broker-dealer received a commission of \$3,500 in connection with this warrant. The offering of the warrant and the underlying shares was exempt from registration pursuant to Section 4(2) of the Act. La Jolla is an accredited investor and we obtained appropriate investment representation and the securities contained appropriate restrictive legends under the Act.

During August 2001, the Company issued to La Jolla a \$225,000 Convertible Debenture bearing 9 3/4 percent interest with a maturity date of August 2, 2003. Interest is payable by the Company monthly in arrears. The Debenture is convertible at any time after the earlier of the effectiveness of the registration statement referred to below or 90 days following issuance at the lower of \$1.00 per share or 80% of the lowest closing bid price of the Common Stock during the 20 days preceding exercise. If on the date of conversion the



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closing bid price of the shares is \$.40 or below, the Company shall have the right to prepay the portion being converted at 150% of the principal amount being converted. In such event, La Jolla shall have the right to withdraw its conversion notice. At the time of conversion of the Debenture, the Company has

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agreed to issue to La Jolla warrants to purchase an amount of Common Stock equal to ten times the number of shares actually issued upon conversion of the Debenture. The warrants are exercisable at any time for two years following issuance and at the related conversion price of the Debenture. The Company has agreed to prepare and file at its expense a registration statement covering the resale of the shares of Common Stock underlying the Debenture as well as the related warrants issuable upon conversion of the Debenture. La Jolla paid to the Company the sum of \$100,000 at the time of the issuance of the Debenture and has agreed to pay \$125,000 at the time of the effective date of the registration statement. The convertible debenture was issued pursuant to the exemption from registration set forth in Section 4(2) of the Act. La Jolla is an accredited investor and we obtained appropriate investment representation and the securities contained appropriate restrictive legends under the Act.

During the period from March 2001 through September 2001, we sold a total of 739.54 units in the 2001-B Private Placement Offering at a price of \$6,000 per unit. Each unit consisted of 10,000 shares of common stock and 20,000 2001-B common stock purchase warrants. The offering was sold to 193 accredited investors, and did not involve any general advertising or solicitation, and was therefore exempt from registration under Rule 506 of Regulation D promulgated under the Act.

During the period from September 2001 through October 19, 2001, we sold for our 2001-C offering an aggregate of 4,212,350 shares of common stock at \$.50 per share for a total of \$2,106,175. For each share of common stock purchased, each investor also received a 2001-C warrant. The offering was sold to 102 accredited investors, and did not involve any general advertising or solicitation, and was therefore exempt from registration under Rule 506 of Regulation D promulgated under the Act.

During October 2001, the Company issued 200,000 shares to Ratner & Prestia, P.C., an accredited investor. The offering did not involve any general advertising or solicitation, and was therefore exempt from registration under Section 4(2) of the Act. The proceeds from the sales of the shares will be applied by Ratner & Prestia towards the unpaid professional fees due to them by the Company. The investor is an accredited investor and we obtained appropriate investment representation and the securities contained appropriate restrictive legends under the Act.

During the period from November 2001 through June 30, 2002, the Company sold \$4,814,593 principal amount of 12% Convertible Senior Notes due December 31, 2004. Each Senior Note is convertible into shares of common stock at \$.40 per share anytime through maturity. The notes were sold to 230 accredited investors and the offer and sale thereof did not involve any general advertising or solicitation and the offer and sale was therefore exempt from registration under Rule 506 of the Regulation D promulgated under the Act.

In January 2002, the Company issued shares of common stock to the following executive officers as a bonus: George R. Jensen, Jr.- 320,000 shares; Stephen P. Herbert- 300,000 shares; H. Brock Kolls-200,000 shares; Leland Maxwell-130,000 shares; and Michael Lawlor- 130,000 shares. The issuance of the shares was exempt from registration under Section 4(2) of the Act. All of these investors are accredited and we obtained appropriate investment representations and the

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securities contained appropriate restrictive legends under the Act.

In May 2002, we acquired Stitch Networks Corporation. Pursuant to the transaction, Stitch became our wholly-owned subsidiary. In exchange for their Stitch stock, the Stitch stockholders received an aggregate of 22,762,341 of our shares of common stock and warrants to purchase up to 8,000,000 of our shares of common stock at \$.40 per share at any time through June 30, 2002. We also issued to the former option holders of Stitch options to purchase up to 2,475,318 shares at \$.165 per share at any time for five years following closing. The

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offer and sale of the shares, warrants, and options was exempt from registration under Section 4(2) of the Act.

The Stitch stockholders acquiring our shares and warrants are all accredited investors and we obtained appropriate investment representations and the securities contained appropriate restrictive legends under the Act. The thirty-three former option holders of Stitch receiving our options consisted of directors, officers or key employees of Stitch, all of whom were sophisticated investors. In connection with the issuance of the options, we obtained appropriate investment representations and the securities contained appropriate restrictive legends under the Act.

In April 2002, the Company agreed to issue 400,000 shares of Common Stock to Alex Consulting, Inc., a consultant to the Company. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act. The investor is an accredited investor and we obtained appropriate investment representation and the securities contained appropriate restrictive legends under the Act.

In April 2002, the Company agreed to issue 90,000 shares of Common Stock to Larry Gershman, a consultant to the Company. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act. The investor is an accredited investor and we obtained appropriate investment representation and the securities contained appropriate restrictive legends under the Act.

In April 2002, the Company agreed to issue to Technology Partners (Holdings) LLC, our investment banker, a total of 150,000 shares of Common Stock. The shares are to be issued at the rate of 25,000 per month under the six month extension of their consultant agreement. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act. The investor is an accredited investor and we obtained appropriate investment representation and the securities contained appropriate restrictive legends under the Act.

During September 2002, the Company sold 2,000,000 shares of restricted Common Stock at \$.12 per share for aggregate proceeds of \$240,000 to an investor. In addition, in October 2002, the Company granted to the investor warrants to purchase up to 2,000,000 shares at \$.10 per share through November 30, 2002 (later extended to March 31, 2003), and if all of these warrants are exercised, the investor has been granted another identical warrant for 2,000,000 shares exercisable at any time through March 31, 2003. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act. The investor is an accredited investor and we obtained appropriate investment representation and the securities contained appropriate restrictive legends under the Act.

Commencing during June 2002 and through October 2002, the Company sold to 186 accredited investors \$4,144,008 principal amount of 12% Senior Notes due December 31, 2005 and 8,288,016 shares of Common Stock. For each \$10,000 invested, the subscriber received a \$10,000 note and 20,000 shares of Common Stock. The Company has received signed subscription documents for the 2002-A

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Private Placement of Senior Notes for \$4,114,008, of which \$2,585,000 has been deposited and the remainder for services. The notes were sold to accredited investors and the offer and sale thereof did not involve any general advertising or solicitation and the offer and sale was therefore exempt from registration under Rule 506 of the Regulation D promulgated under the Act.

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La Jolla Cove Investors converted Debentures and exercised warrants. The investor utilized previously remitted funds to the Company which was reflected as a deposit in the June 30, 2002 consolidated financial statements. Specifically, from inception through June 30, 2003, La Jolla converted \$325,000 of 9 3/4 percent Convertible Debentures, for which the Company issued 2,800,903 shares of stock, and exercised 10,543,673 warrants to purchase Common Stock at an average price of \$.16 per share. The Company had previously executed a Securities Purchase Agreement with La Jolla for the purchase of \$225,000 (increased by \$100,000 on June 18, 2002) of Convertible Debentures bearing 9 3/4 percent interest with a maturity date of August 3, 2003 (extended to August 2, 2004 on June 18, 2002). Interest is payable by the Company monthly in arrears. The Debenture is convertible at any time after the earlier of the effectiveness of the registration statement or 90 days following issuance, at the lower of \$1.00 per share or 80% (later lowered to 72%) of the lowest closing bid price of the Common Stock during the 30 days preceding exercise. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act.

In July 2002 the Company agreed to issue an aggregate of 234,600 shares to employees as part of those employees' severance payments at the time of and as part of the employee's termination of employment. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act. All of these eight former employees were sophisticated and were afforded access to all public filings as well as to any other information reasonably obtainable by USA. We received investment representations from all of these investors and all the securities contained appropriate restrictive legends under the Act.

In July 2002, the Company agreed to issue to Karl Mynyk, a former employee, an aggregate of 125,000 shares in settlement of litigation between he and the Company. The shares were valued at \$.20 per share. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act. Mr. Mynyk is a sophisticated investor, was afforded access to all public filings as well as to any other information reasonably obtainable by USA. We received investment representations from him and the securities contained appropriate restrictive legends under the Act.

In October 2002 and January 2003, the Company issued 529,324 and 593,634 shares, respectively, (valued at \$.20 per share) to the holders of the senior notes in lieu of the cash quarterly interest payments due for the quarters ended September 2002 and December 2002, respectively. In addition, for these two quarters the Company granted warrants to purchase up to 1,122,958 shares at \$.20 per share at any time prior to December 31, 2004. The offer and sale of the shares and warrants was exempt from registration under Rule 506 promulgated under the Act. All of these securities were sold to accredited investors and the offer and sale did not involve any general advertising or solicitation.

In October 2002, the Company issued to Edwin P. Boynton 50,000 shares in lieu of the 100,000 options granted to him in April 2002. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act. Mr. Boynton is an accredited investor and a Director of the Company, we obtained investment representations from him and the securities contained appropriate restrictive legends under the Act.

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In October 2002, the Company sold to an investor, Kazi Management VI, Inc. 3,571,429 shares of Common Stock at \$.07 per share and issued the following warrants: (1) warrants to purchase up to 7,142,858 shares of Common Stock at \$.07 at any time for a five year period; and (2) warrants to purchase up to 7,142,858 shares at \$.07 per share and up to 5,000,000 shares at \$.10 per share, exercisable over a one year period. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act. The investor is an accredited investor and we obtained appropriate investment representations from the investor and the securities contained appropriate restrictive legends under the Act.

In October 2002, the Company sold to an investor, Alpha Capital Aktiengesellschaft, 1,500,000 shares at \$.10 per share and granted warrants to purchase up to 750,000 shares at \$.15 per share at any time for five years.

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Within seven days following the effectiveness of the registration statement covering these shares, and provided that a Non-Registration Event (as defined in our agreement with Alpha) has not occurred, the Company has agreed to sell to the investor an additional 1,500,000 shares at \$.10 per share and grant warrants to purchase up to 750,000 shares at the then closing price per share at any time for five years. The securities were sold to an accredited investor and the offer and sale thereof did not involve any general advertising or solicitation and the offer and sale was therefore exempt from registration under Rule 506 of the Regulation D promulgated under the Act.

In October 2002, the Company granted to the holders of the 12% senior notes warrants to purchase that number of shares equal to 75% of the dollar amount of the notes held by such holder. The total number of warrants issued was 10,360,025 and are exercisable at any time prior to October 31, 2003. If the holder exercises all of such holder's warrants, the holder shall receive another identical warrant exercisable at any time prior to October 31, 2003. From November 2002 through June 30, 2003, 14,025,804 of these warrants were exercised at \$.10 per share for a total of \$1,402,851. The offer and sale of the warrants and these shares was exempt from registration under Rule 506 promulgated under the Act. All of the noteholders are accredited investors and already the holders of our notes. The warrants and the shares all contained appropriate restrictive legends under the Act.

On October 31, 2002, eight employees of and two consultants to USA entered into subscription agreements with USA to receive an aggregate of 1,480,000 shares for services to be rendered to USA. The shares were valued at \$.125 per share and were exempt from registration under Section 4(2) of the Act. All of the employees and consultants were sophisticated investors, made appropriate investment representations, were afforded access to all public filings and all other information that USA could reasonably obtain, and the securities contained appropriate restrictive legends under the Act.

During the 2003 fiscal year and through August 7, 2003, the Company issued an aggregate of 85,601,130 shares to 398 accredited investors at \$.10 per share for an aggregate of \$8,560,130. Of the \$8,560,130, \$8,345,674 were for cash proceeds and \$214,439 were for services rendered or to be rendered. The offer and sales of the shares was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act. All of the investors were either pre-existing security holders or business associates. The offer and sale thereof did not involve any general advertising or solicitation and the securities contained appropriate

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restrictive legends under the Act. In connection with the offering, we paid \$64,000 to Sloan Securities, Inc., a broker-dealer, in connection with the 8,000,000 shares sold by Sloan on our behalf. We have agreed to use our best efforts to register all of these shares for resale under the Act for a period of one year.

In February, 2003, Jubilee Investment Trust, PLC ("Jubilee"), a United Kingdom investment trust made an equity investment in USA Technologies at U.S.\$0.20 per share. Jubilee is a newly established investment trust set up to invest in securities traded on a range of public markets, primarily in the United Kingdom. USA Technologies issued to Jubilee 15,000,000 shares of Common Stock of USA Technologies at a price per share of U.S.\$0.20 with an aggregate value of U.S.\$2,850,000. In full payment for the shares of USA Technologies, Jubilee issued to USA Technologies an equivalent of their shares (1,870,091 shares of Jubilee at a price per share valued at One British Pound which was the initial public offering price per share for the Jubilee shares). The exchange rate used

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by the parties for the transaction was One British Pound equals U.S.\$1.6042. The shares to be issued to Jubilee by USA Technologies will not be registered under the Securities Act of 1933, as amended. Jubilee has agreed not to sell USA Technologies' shares for a period of two (2) years from the date of issuance unless USA Technologies agrees otherwise. The shares were issued to Jubilee by USA pursuant to the exemption from registration set forth in Section 4(2) of the Act.

In March 2003, we issued a warrant to La Jolla Cove Investors, Inc. to purchase up to 9,000,000 shares at \$.10 per share. The warrants expire as follows: 3,000,000 on the three month anniversary of the date of this prospectus; 3,000,000 on the 6 month anniversary of the date of this prospectus; and 3,000,000 on the 9 month anniversary of the date of this prospectus. The warrants may not be exercised without our consent on any date on which the closing price of our shares is less than \$.40. We have agreed to register the shares underlying the warrants for resale under the Act for a period of one year. The warrants were offered and sold to La Jolla pursuant to the exemption from registration set forth in Section 4(2) of the Act. During October 2003, these warrants were rescinded and cancelled by agreement of USA and La Jolla.

In April 2003, we issued 530,818 shares and warrants to purchase up to 530,818 shares to the holders of our senior notes who elected to receive these securities in lieu of the cash interest payment due for the quarter ended March 31, 2003. The shares were purchased at the rate of \$.20 per share and the warrants are exercisable at \$.20 per share at any time through June 30, 2004. We have agreed to register the shares and the shares underlying the warrants under the Act for resale for a period of 2 years. The securities were offered and sold under the exemption from registration set forth in Rule 506 promulgated under the Act. All of the noteholders are accredited investors and existing security holders of USA and there was no general solicitation or advertising.

During April 2003, we agreed to issue to Steve Illes, an existing shareholder, an aggregate of 1,000,000 shares for \$.10 per share and agreed to issue to him warrants to purchase up to 4,000,000 shares at \$.10 per share at any time through August 31, 2003. The offer and sale of the shares and warrants was exempt from registration under Section 4(2) of the Act. Mr. Illes is an accredited investor, made appropriate investment representations, was afforded access to all public filings and all other information that USA could reasonably obtain, and the securities contained appropriate restrictive legends under the Act. We have agreed to register the shares and the shares underlying the

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warrants for resale under the Act for a period of one year.

During May 2003, we issued to Providence Investment Management, an accredited investor, an aggregate of 2,500,000 shares for \$.10 per share. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act. Providence Investment Management is an accredited investor, made appropriate investment representations, was afforded access to all public filings and all other information that USA could reasonably obtain, and the securities contained appropriate restrictive legends under the Act. Providence approached us about the investment and we did not solicit Providence. We have agreed to register the shares for resale under the Act for a period of one year.

During July 2003, we issued an aggregate of 10,500,000 shares to George R. Jensen, Jr., our Chairman and Chief Executive Officer, as part of the amendment to his employment agreement. The offer and sale of the shares was exempt from

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registration under Section 4(2) of the Act. Mr. Jensen is an accredited investor, made appropriate investment representations, was afforded access to all public filings and all other information that USA could reasonably obtain, and the securities contained appropriate restrictive legends under the Act. Mr. Jensen has entered into a lock up agreement pursuant to which he shall not sell 2,500,000 of the shares for a one year period and 8,000,000 of the shares for a two year period.

In July 2003, we issued 661,224 shares and warrants to purchase up to 661,224 shares to the holders of our senior notes who elected to receive these securities in lieu of the cash interest payment due for the quarter ended June 30, 2003. The shares were purchased at the rate of \$.20 per share and the warrants are exercisable at \$.20 per share at any time through June 30, 2004. We have agreed to register the shares and the shares underlying the warrants under the Act for resale for a period of 2 years. The securities were offered and sold under the exemption from registration set forth in Rule 506 promulgated under the Act. All of the noteholders are accredited investors and existing security holders of USA, and there was no general solicitation or advertising.

On July 11, 2003, we issued 20,000,000 shares to Bayview Technology Group LLC, as part of our purchase of substantially all of the assets of Bayview. The securities were offered and sold under the exemption from registration set forth in Rule 506 promulgated under the Act. Bayview was introduced to us through our consultant Robert McGarrah, and there was no general solicitation or advertising. Bayview has agreed not to sell any of the shares until July 11, 2004, at which time Bayview shall be permitted to sell during each calendar month thereafter (on a non-cumulative basis) the greater of (i) 250,000 shares of the Stock, or (ii) that number of shares of the Stock equal to five percent (5%) of the immediately prior calendar month's trading volume of the shares of Common Stock of USA. USA has agreed to use its best efforts to register all of the shares for resale by Bayview under the Securities Act of 1933, as amended, for a period of one year (from July 11, 2004 through July 11, 2005).

During September 2003, we issued to Wellington Management Company, LLP, on behalf of several of its clients, an aggregate of 18,000,000 shares for \$.25 per share. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act. All of these clients are accredited investors. This investor approached us regarding this investment and we did not solicit this investor. We have agreed to register the shares for resale under the Act for a

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period of one year.

During September 2003, we issued to George O'Connell, an accredited investor and existing shareholder, an aggregate of 1,000,000 shares for \$.25 per share. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act. We have agreed to register the shares for resale under the Act for a period of one year.

During September 2003, we issued to Prophecy Asset Management, an accredited investor, an aggregate of 750,000 shares for \$.25 per share. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act. This investor approached us regarding this investment and we did not solicit this investor. We have agreed to register the shares for resale under the Act for a period of one year.

During September 2003, we issued to Fulcrum Global Partners, LLC, an accredited investor, an aggregate of 260,000 shares for \$.25 per share. The offer and sale of the shares was exempt from registration under Section 4(2) of the Act. This investor approached us regarding this investment and we did not solicit this investor. We have agreed to register the shares for resale under the Act for a period of one year.

In October 2003, we issued 577,457 shares and 577,457 warrants to purchase up to shares to the holders of our senior notes who elected to receive these securities in lieu of the cash interest payment due for the quarter ended September 30, 2003. The shares were purchased at the rate of \$.20 per share and

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the warrants are exercisable at \$.20 per share at any time through June 30, 2004. We have agreed to register the shares and the shares underlying the warrants under the Act for resale for a period of 2 years. The securities were offered and sold under the exemption from registration set forth in Rule 506 promulgated under the Act. All of the noteholders are accredited investors and existing security holders, and there was no general solicitation or advertising.

In October 2003, we issued to Alpha Capital Atkiengesellschaft, a current shareholder, an aggregate of 500,000 shares due to Alpha as a result of the occurrence of a Non-Registration Event as defined under our agreement with Alpha because we failed to register within 120 days of issuance the securities issued to Alpha in November 2002. The securities were sold to an accredited investor and the offer and sale thereof did not involve any general advertising or solicitation and the offer and sale was therefore exempt from registration under Section 4(2) under the Act.

During the quarter ended June 30, 2003, the Company issued an aggregate of 8,497,819 shares to 464 holders of warrants at \$0.10 per share for an aggregate of \$849,783. The offer and sales of the shares was exempt from the registration requirements of the Act under Rule 506 promulgated thereunder. In this regard, the offer and sale thereof did not involve any general advertising or solicitation and the securities contained appropriate restrictive legends under the Act. The Company agreed to use its best efforts to register the shares for resale under the Act.

During the quarter ended June 30, 2003, the Company issued an aggregate of 4,462,918 shares to 13 holders of its Convertible Senior Notes at the rate of

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\$0.20 per share for aggregate conversions of \$892,584. The offer and sales of the shares was exempt from the registration requirements of the Act under Rule 506 promulgated thereunder. In this regard, the offer and sale thereof was to existing security holders and did not involve any general advertising or solicitation and the securities contained appropriate restrictive legends under the Act.

During the quarter ended June 30, 2003, 50 holders of \$2,196,000 principal amount of the Senior Notes maturing in December 2003 elected to extend these notes until December 31, 2006 and to have the conversion rate reduced from \$1.25 per share to \$0.20 per share. The note exchange was exempt from the registration requirements of the Act pursuant to Section 3(a)(9) thereof.

During the quarter ended June 30, 2003, 56 holders of \$1,296,397 principal amount of the Senior Notes maturing in December 2004 elected to extend these notes until December 31, 2007 and to have the conversion rate reduced from \$0.40 per share to \$0.20 per share. The shares were issued solely in exchange for our securities and we paid no commissions in connection with the transaction. The note exchange was exempt from the registration requirements of the Act pursuant to Section 3(a)(9) thereof.

During the quarter ended June 30, 2003, the Company issued 3,340 shares of Common Stock upon the conversion of 3,340 shares of Series A Preferred Stock and issued 4,008 shares of Common Stock upon the conversion of \$40,080 of cumulative dividends accrued and unpaid on these shares of Preferred Stock. The shares were issued solely in exchange for our securities and we paid no commissions in connection with the transaction. The shares of Common Stock were issued pursuant to the exemption from registration set forth in Section 3(a)(9) of the Act.

During the quarter ended September 30, 2003, the Company issued an aggregate of 535,258 shares of Common Stock to 7 holders of warrants at \$0.10 per share for an aggregate of \$53,526. The Company issued 105,000 shares for consulting services rendered or to be rendered to the Company, to the following warrants holders upon exercise of their warrants: Rachel Glicksman- 72,000 shares; Charlotte Given-30,000 shares; and Gary Nash- 3,000 shares. These warrants were exercised at \$0.10 per share and no cash payment was required in connection with their exercise. The shares issued for services were recorded at the market price on the date of grant. The offer and sales of the shares was exempt from the registration requirements of the Act under Rule 506 promulgated thereunder. In this regard, the offer and sale thereof was to existing security holders and did not involve any general advertising or solicitation and the securities contained appropriate restrictive legends under the Act. The Company agreed to use its best efforts to register the shares for resale under the Act.

During the quarter ended September 30, 2003, the Company issued an aggregate of 7,500,834 shares of Common Stock to 31 holders of its Convertible Senior Notes upon their conversion at the rate of \$0.20 per share for an aggregate of \$1,500,167. The offer and sales of the shares was exempt from the registration requirements of the Act under Rule 506 promulgated thereunder. In this regard, the offer and sale thereof was to existing security holders and did not involve any general advertising or solicitation and the securities contained appropriate restrictive legends under the Act.

During the quarter ended September 30, 2003, 54 holders of \$1,116,000 principal amount of the Senior Notes maturing in December 2003 elected to extend these notes until December 31, 2006 and to have the conversion rate reduced from \$1.25 per share to \$0.20 per share. The note exchange was exempt from the registration requirements of the Act pursuant to Section 3(a)(9) thereof.

During the quarter ended September 30, 2003, 23 holders of \$708,096 principal amount of the Senior Notes maturing in December 2004 elected to extend these notes until December 31, 2007 and to have the conversion rate reduced from \$0.40



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per share to \$0.20 per share. The note exchange was exempt from the registration requirements of the Act pursuant to Section 3(a)(9) thereof.

From February through June 2004, the Company sold 28,290,833 shares of Common Stock to 34 accredited investors at \$.15 per share for an aggregate of \$4,243,625. During June 2004, the Company granted to each investor in the offering a warrant to purchase one-half of a share for each share subscribed for by such investor in the offering. The Company issued warrants to purchase a total of 14,145,417 shares. The warrants are exercisable at \$.20 per share at any time through December 31, 2004. We have agreed to register the shares and the shares underlying the warrants under the Act for resale for a period of two years. The offer and sales of the shares was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act. All of the investors were either pre-existing security holders or business associates. The offer and sale thereof did not involve any general advertising or solicitation and the securities contained appropriate restrictive legends under the Act.

In January 2004, we issued 538,592 shares and 538,592 warrants to purchase shares to the holders of our senior notes who elected to receive these securities in lieu of the cash interest payment due for the quarter ended December 31, 2003. The shares were purchased at the rate of \$.20 per share and the warrants are exercisable at \$.20 per share at any time through August 30, 2004. We have agreed to register the shares and the shares underlying the warrants under the Act for resale for a period of 2 years. The securities were offered and sold under the exemption from registration set forth in Rule 506 promulgated under the Act. All of the noteholders are accredited investors and existing security holders, and there was no general solicitation or advertising.

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

In January 2004, we issued to CEOCAST, Inc. a total of 150,000 shares for services to be rendered to the Company. The offer and sale of the shares were exempt from registration under Section 4(2) of the Act. The Company agreed to use its best efforts to register the shares for resale under the Act.

On June 18, 2004, we entered into a Common Stock Purchase Agreement with Steve Illes. During the one year period following the date of the effectiveness of a registration statement covering the shares, Illes has agreed to purchase from USA shares of Common Stock, provided that the aggregate purchase price can not exceed \$7,500,000. Under the Agreement, Illes is permitted to purchase Common Stock from USA at any time at the price per share of \$.30. In addition, USA has the right at any time to require Illes to purchase Common Stock from USA at the lower of: (i) \$.30; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by USA to Illes of notice of his obligation to purchase. USA can require Illes to purchase shares under the Agreement only if the shares have been registered by the Company for resale by Illes under the Act. During any calendar month, Illes is not permitted to purchase and can not be required by USA to purchase Common Stock for an aggregate purchase price in excess of \$700,000. We have agreed to register for resale the shares purchased

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by Illes under the Agreement for a period of one year from the date of the effectiveness of the initial registration statement covering the shares to be purchased by Illes. We have agreed to pay to Illes a due diligence fee of \$45,000. The securities were offered and sold to Illes under the exemption from registration set forth under Rule 506 promulgated under the Act. Mr. Illes is an existing shareholder and an accredited investor, and there was no general solicitation or advertising.

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### II. Stock Options

In August 2001, we issued to Larry Gershman, a marketing and financial consultant, fully vested warrants to purchase an aggregate of 150,000 shares of our common stock at \$.70 per share exercisable at any time through August 2, 2003. In September 2001, we issued fully vested options to the following employees or consultants: Adele Hepburn - 200,000 options; Frances Young - 100,000 options; and George O'Connell - 100,000 options. The options are exercisable at \$.70 per share at any time through June 30, 2003.

In November 2001, the Company authorized issuance of 1,080,000 fully vested options to purchase its Common Stock to its Executive Officers, provided that they were employed by the Company as of January 2, 2002. The amounts of options authorized were: George R. Jensen, Jr. - 320,000 options; Stephen P. Herbert - 300,000 options; Haven Brock Kolls 200,000 options; Leland Maxwell - 130,000 options; and Michael Lawlor - 130,000 options. Each option is exercisable at \$.40 per share at any time and on or before June 30, 2003. These options vested during March, 2002.

In November 2001, the Company issued the following fully vested options to purchase an aggregate of 650,000 shares: Gary Oakland - 100,000 options; Adele Hepburn - 300,000 options; and Frances Young - 250,000 options. These options vested during March, 2002.

In April 2002, the Company granted to H. Brock Kolls an aggregate of fully vested options to purchase up to 50,000 shares exercisable at \$.40 per share for a three year period following issuance.

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On April 28, 2004 the Company issued to Mary West Young options to purchase 300,000 shares of Common Stock for \$.30 per share which vest ratably over a two year period.

The issuance of all of the foregoing options was made in reliance upon the exemption provided by Section 4(2) of the Act as all of the options were issued to officers, directors, employees or consultants of USA, each of such issuances were separate transactions not part of any plan, and none of the issuances involved any general solicitation or advertising.

### Item 27. Exhibits.

Exhibit

Number            Description

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- 2.1 Asset Purchase Agreement dated July 11, 2003 by and between USA and Bayview Technology Group LLC (Incorporated by reference to Exhibit 2.1 to Form 8-K filed July 14, 2003)

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- 3.1 Amended and Restated Articles of Incorporation of USA filed January 26, 2004 (Incorporated by reference to Exhibit 3.1.19 to Form 10-QSB filed on February 12, 2004).
- 3.2 By-Laws of USA (Incorporated by reference to Exhibit 3.2 to Form SB-2 Registration Statement No. 33-70992).
- 4.1 Warrant Agreement dated as of June 21, 1995 between USA and American Stock Transfer and Trust Company (Incorporated by reference to Exhibit 4.1 to Form SB-2 Registration Statement No. 33-98808, filed October 31, 1995).
- 4.2 Form of Warrant Certificate (Incorporated by reference to Exhibit 4.2 to Form SB-2 Registration Statement, No. 33-98808, filed October 31, 1995).
- 4.3 1996 Warrant Agreement dated as of May 1, 1996 between USA and American Stock Transfer and Trust Company (Incorporated by reference to Exhibit 4.3 to Form SB-2 Registration Statement No. 333-09465).

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- 4.4 Form of 1996 Warrant Certificate (Incorporated by reference to Exhibit 4.4 to Form SB-2 Registration Statement No. 333-09465).
- 4.5 Form of 1997 Warrant (Incorporated by reference to Exhibit 4.1 to Form SB-2 Registration Statement No. 333-38593, filed February 4, 1998).
- 4.6 Form of 12% Senior Note (Incorporated by reference to Exhibit 4.6 to Form SB-2 Registration Statement No. 333-81591).
- 4.7 Warrant Certificate of I. W. Miller Group, Inc. (Incorporated by reference to Exhibit 4.7 to Form SB-2 Registration Statement No. 84513).
- 4.8 Warrant Certificate of Harmonic Research, Inc. (Incorporated by reference to Exhibit 4.8 to Form SB-2 Registration Statement No. 333-84513).
- 4.9 Registration Rights Agreement dated August 3, 2001 by and between the Company and La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.9 to Form 10-KSB filed on October 1, 2001).
- 4.10 Securities Purchase Agreement dated August 3, 2001 between the Company and La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.10 to Form 10-KSB filed on October 1, 2001).

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- 4.11 Form of Conversion Warrants to be issued by the Company to La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.11 to Form 10-KSB filed on October 1, 2001).
- 4.12 \$225,000 principal amount 9 3/4% Convertible Debenture dated August 3, 2001 issued by the Company to La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.12 to Form 10-KSB filed on October 1, 2001).
- 4.13 Warrant certificate dated July 11, 2001 from the Company to La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.13 to Form 10-KSB filed on October 1, 2001).
- 4.14 August 2, 2001 letter from La Jolla Cove Investors, Inc. to the Company (Incorporated by reference to Exhibit 4.14 to Form 10-KSB filed on October 1, 2001).
- 4.15 Subscription Agreement dated October 26, 2001 by and between the Company and Ratner & Prestia, P.C. (Incorporated by reference to Exhibit 4.15 to Form SB-2 Registration Statement No. 333-72302).
- 4.16 Subscription Agreement dated October 26, 2002 by and between the Company and Ratner & Prestia, P.C. (Incorporated by reference to Exhibit 4.16 to Form SB-2 Registration Statement No. 333-101032).
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- 4.17 Stock Purchase Agreement dated October 26, 2002 by and between the Company and Kazi Management VI, Inc. (Incorporated by reference to Exhibit 4.17 to Form SB-2 Registration Statement No. 333-101032).
- 4.18 Warrant Certificate (no. 189) dated October 26, 2002 in favor of Kazi Management VI, Inc. (Incorporated by reference to Exhibit 4.18 to Form SB-2 Registration Statement No. 333-101032).
- 4.19 Registration Rights Agreement dated October 26, 2002 by and between the Company and Kazi Management, Inc. (Incorporated by reference to Exhibit 4.19 to Form SB-2 Registration Statement No. 333-101032).
- 4.20 Warrant Certificate (no. 190) dated October 26, 2002 in favor of Kazi Management VI, Inc. (Incorporated by reference to Exhibit 4.20 to Form SB-2 Registration Statement No. 333-101032).
- 4.21 Subscription Agreement dated November 4, 2002 by and between the Company and Alpha Capital Aktiengesellschaft (Incorporated by reference to Exhibit 4.21 to Form SB-2 Registration Statement No. 333-101032).
- 4.22 Form of Common Stock Purchase Warrant dated November 4, 2002 in favor of Alpha Capital Aktiengesellschaft (Incorporated by reference to Exhibit 4.22 to Form SB-2 Registration Statement No. 333-101032).
- 4.23 Warrant Certificate (No. 196) dated March 17, 2003 in favor of La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.23 to Form SB-2 Registration Statement No. 333-101032).
- 4.24 Form of 2004 Senior Note (Incorporated by reference to Exhibit

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- 4.24 to Form SB-2 Registration Statement No. 333-101032).
- 4.25 Form of 2005 Senior Note (Incorporated by reference to Exhibit 4.25 to Form SB-2 Registration Statement No. 333-101032).
- 4.26 Stock Purchase Agreement dated May 2, 2003 by and between USA and Providence Investment Management (Incorporated by reference to Exhibit 4.26 to Form SB-2 Registration Statement No. 333-101032).
- 4.27 Stock Purchase Agreement dated March, 2003 by and between USA and Steve Illes (Incorporated by reference to Exhibit 4.27 to Form SB-2 Registration Statement No. 333-101032).
- 4.28 Stock Purchase Agreement dated September 23, 2003 by and between USA and Wellington Management Company, LLC. (Incorporated by reference to Exhibit 4.28 to Form 10-KSB filed on October 14, 2003).
- 4.29 Stock Purchase Agreement dated September 26, 2003 by and between USA and George O'Connell. (Incorporated by reference to Exhibit 4.29 to Form 10-KSB filed on October 14, 2003).
- 4.30 Stock Purchase Agreement dated September 24, 2003 by and between USA and Fulcrum Global Partners, LLC. (Incorporated by reference to Exhibit 4.30 to Form 10-KSB filed on October 14, 2003).
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- 4.31 Stock Purchase Agreement dated September 2003 by and between USA and Prophecy Asset Management, Inc. (Incorporated by reference to Exhibit 4.31 to Form 10-KSB filed on October 14, 2003).
- 4.32 Letter Agreement between USA and La Jolla Cove Investors dated October 9, 2003. (Incorporated by reference to Exhibit 4.32 to Form SB-2 Registration Statement No. 333-101032)
- 4.33 Letter Agreement between USA and Alpha Capital Atkiengesellschaft dated October 3, 2003. (Incorporated by reference to Exhibit 4.33 to Form SB-2 Registration Statement No. 333-101032)
- 4.34 Form of 2004-A Warrant Certificate.
- 4.35 Common Stock Purchase Agreement between the Company and Steve Illes dated June 18, 2004.
- 5.1 Opinion of Lurio & Associates, P.C.
- 10.1 Employment and Non-Competition Agreement between USA and Adele Hepburn dated as of January 1, 1993 (Incorporated by reference to Exhibit 10.7 to Form SB-2 Registration Statement No. 33-70992).
- 10.1.1 First Amendment to Employment and Non-Competition Agreement between USA and Adele Hepburn dated as of February 4, 2004. (Incorporated by reference to Exhibit 10.1.1 to Form 10-QSB filed on February 12, 2004).
- 10.2 Adele Hepburn Common Stock Options dated as of July 1, 1993 (Incorporated by reference to Exhibit 10.12 to Form SB-2

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Registration Statement No. 33-70992).

- 10.3 Certificate of Appointment of American Stock Transfer & Trust Company as Transfer Agent and Registrar dated October 8, 1993 (Incorporated by reference to Exhibit 10.23 to Form SB-2 Registration Statement No. 33-70992).
- 10.4 Employment and Non-Competition Agreement between USA and H. Brock Kolls dated as of May 1, 1994 (Incorporated by reference to Exhibit 10.32 to Form SB-2 Registration Statement No. 33-70992).
  - 10.4.1 First Amendment to Employment and Non-Competition Agreement between USA and H. Brock Kolls dated as of May 1, 1994 (Incorporated by reference to Exhibit 10.13.1 to Form SB-2 Registration Statement No. 333-09465).
  - 10.4.2 Third Amendment to Employment and Non-Competition Agreement between USA and H. Brock Kolls dated February 22, 2000 (Incorporated by reference to Exhibit 10.3 to Form S-8 Registration Statement No. 333-341006).
  - 10.4.3 Fourth Amendment to Employment and Non-Competition Agreement between USA and H. Brock Kolls dated April 15, 2002. (Incorporated by reference to Exhibit 10.4.3 to Form 10-QSB filed on February 12, 2004).
  - 10.4.4 Fifth Amendment to Employment and Non-Competition Agreement between USA and H. Brock Kolls dated April 20, 2004.
- 10.5 H. Brock Kolls Common Stock Options dated as of May 1, 1994 (Incorporated by reference to Exhibit 10.42 to Form SB-2 Registration Statement No. 33-70992).
- 10.5.1 H. Brock Kolls Common Stock Options dated as of March 20, 1996 (Incorporated by reference to Exhibit 10.19 to Form SB-2 Registration Statement No. 33-70992)
- 10.6 Barry Slawter Common Stock Options dated as of August 25, 1994 (Incorporated by reference to Exhibit 10.43 to Form SB-2 Registration Statement No. 33-70992).
- 10.7 Employment and Non-Competition Agreement between USA and Michael Lawlor dated June 7, 1996 (Incorporated by reference to Exhibit 10.28 to Form SB-2 Registration Statement No. 333-09465).
  - 10.7.1 First Amendment to Employment and Non-Competition Agreement between USA and Michael Lawlor dated February 22, 2000 (Incorporated by reference to Exhibit 10.5 to Form S-8 Registration Statement No. 333-341006).
  - 10.7.2 Separation Agreement between USA and Michael Lawlor dated May 13, 2003. (Incorporated by reference to Exhibit 10.7.2 to Form 10-KSB filed on October 14, 2003).
- 10.8 Michael Lawlor Common Stock Option Certificate dated as of June 7, 1996 (Incorporated by reference to Exhibit 10.29 to Form SB-2

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Registration Statement No.333-09465).

- 10.9 Employment and Non-Competition Agreement between USA and Stephen P. Herbert dated April 4, 1996 (Incorporated by reference to Exhibit 10.30 to Form SB-2 Registration Statement No. 333-09465).
- 10.9.1 First Amendment to Employment and Non-Competition Agreement between USA and Stephen P. Herbert dated February 22, 2000 (Incorporated by reference to Exhibit 10.2 to Form S-8 Registration Statement No. 333-34106).
- 10.9.2 Second Amendment to Employment and Non-Competition Agreement between Stephen P. Herbert and the Company dated April 15, 2002 (Incorporated by reference to Exhibit 10.9.2 to Form SB-2 Registration Statement No. 333-101032).
- 10.9.3 Third Amendment to Employment and Non-Competition Agreement between Stephen P. Herbert and USA dated July 25, 2003 (Incorporated by reference to Exhibit 10.9.3 to Form SB-2 Registration Statement No. 333-101032).
- 10.9.4 Fourth Amendment to Employment and Non-Competition Agreement between USA and Stephen P. Herbert dated February 4, 2004. (Incorporated by reference to Exhibit 10.9.4 to Form 10-QSB filed on February 12, 2004).
- 10.10 Stephen P. Herbert Common Stock Option Certificate dated April 4, 1996 (Incorporated by reference to Exhibit 10.31 to Form SB-2 Registration Statement No. 333-09465).
- 10.11 RAM Group Common Stock Option Certificate dated as of August 22, 1996 (Incorporated by reference to Exhibit 10.34 to Form SB-2 Registration No. 33-98808).
- 10.12 RAM Group Common Stock Option Certificate dated as of November 1, 1996 (Incorporated by reference to Exhibit 10.35 to Form SB-2 Registration No. 33-98808).
- 10.13 Joseph Donahue Common Stock Option Certificate dated as of September 2, 1996 (Incorporated by reference to Exhibit 10.37 to Form SB-2 Registration No. 33-98808).
- 10.14 Employment and Non-Competition Agreement between USA and Leland P. Maxwell dated February 24, 1997 (Incorporated by reference to Exhibit 10.39 to Form SB-2 Registration No. 33-98808)
- 10.14.1 Second Amendment to Employment and Non-Competition Agreement between USA and Leland P. Maxwell dated February 22, 2000 (Incorporated by reference to Exhibit 10.4 to Form S-8 Registration Statement No. 333-34106)
- 10.14.2 Separation Agreement between USA and Leland P. Maxwell dated May 9, 2003. (Incorporated by reference to Exhibit 10.14.2 to Form 10-KSB filed on October 14, 2003).
- 10.15 Leland P. Maxwell Common Stock Option Certificate dated February 24, 1997 (Incorporated by reference to Exhibit 10.40 to Form SB-2

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Registration No. 33-98808).

- 10.16 Letter between USA and GEM Advisers, Inc. signed May 15, 1997 (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on May 22, 1997).
- 10.17 H. Brock Kolls Common Stock Option Certificate dated as of June 9, 1997 (Incorporated by reference to Exhibit 10.43 to Form SB-2 Registration Statement 333-30853).
- 10.18 Stephen Herbert Common Stock Option Certificate dated as of June 9, 1997 (Incorporated by reference to Exhibit 10.44 to Form SB-2 Registration Statement No. 333-30853).
- 10.19 Michael Feeney Common Stock Option Certificate dated as of June 9, 1997 (Incorporated by reference to Exhibit 10.46 to Form SB-2 Registration Statement No. 333-30853).
- 10.20 Joint Venture Agreement dated September 24, 1997 between USA and Mail Boxes Etc. (Incorporated by reference to Exhibit 10.47 to Form 10-KSB filed on September 26, 1997).
- 10.21 Employment and Non-competition Agreement between USA and George R. Jensen, Jr. dated November 20, 1997 (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 26, 1997).
  - 10.21.1 First Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr., dated as of June 17, 1999. (Incorporated by reference to Exhibit 4.21.1 to Form SB-2 Registration Statement No. 333-94917)
  - 10.21.2 Second Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr. dated February 22, 2000 (Incorporated by reference to Exhibit 10.1 to Form S-8 Registration Statement No. 333-34106).
  - 10.21.3 Third Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr. dated January 16, 2002 (Incorporated by reference to Exhibit 10.21.3 to Form SB-2 Registration Statement No. 333-101032).
  - 10.21.4 Fourth Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr., dated April 15, 2002 (Incorporated by reference to Exhibit 10.21.4 to Form SB-2 Registration Statement No. 333-101032).
  - 10.21.5 Fifth Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr., dated July 16, 2003 (Incorporated by reference to Exhibit 10.21.5 to Form SB-2 Registration Statement No. 333-101032).
- 10.21.6 Sixth Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr. dated February 4, 2004. (Incorporated by reference to Exhibit 10.21.6 to Form 10-QSB filed on February 12, 2004).
- 10.22 Agreement between USA and Promus Hotels, Inc. dated May 8, 1997 (incorporated by reference to Exhibit 10.49 to Form SB-2



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Registration Statement No. 333-38593, filed on February 4, 1998).

- 10.23 Agreement between USA and Choice Hotels International, Inc. dated April 24, 1997 (Incorporated by reference to Exhibit 10.50 to Form SB-2 Registration Statement No. 333-38593, filed on February 4, 1998).
- 10.24 Agreement between USA and PNC Merchant Services dated July 18, 1997 (Incorporated by reference to Exhibit 10.51 to Form SB-2 Registration Statement No. 333-38593, filed on February 4, 1998).
- 10.25 Separation Agreement between USA and Keith L. Sterling dated April 8, 1998 (Incorporated by reference to Exhibit to Exhibit 10.1 to Form 10-QSB filed May 12, 1998).
- 10.26 Phillip A. Harvey Common Stock Option Certificate dated as of April 22, 1999 (Incorporated by reference to Exhibit 10.35 to Form SB-2 Registration Statement No. 333-81591).
- 10.27 Consulting Agreement between Ronald Trahan and USA dated November 16, 1998 (incorporated by Reference to Exhibit 28 to Registration Statement No. 333-67503 on Form S-8 filed on November 18, 1998)
- 10.28 Consulting Agreement between Mason Sexton and USA dated March 10, 1999 (incorporated by reference to Exhibit 28 to Registration Statement No. 333-74807 on Form S-8 filed on March 22, 1999).
- 10.29 Financial Public Relations Agreement between USA and I. W. Miller Group, Inc. dated August 1, 1999 (Incorporated by reference to Exhibit 10.38 to Form SB-2 Registration Statement No. 333-84513).
- 10.30 Consulting Agreement between Harmonic Research, Inc. and USA dated August 3, 1999 (Incorporated by reference to Exhibit 10.39 to Form SB-2 Registration Statement No. 333-84513).
- 10.31 Investment Agreement between USA and Swartz Private Equity, LLC dated September 15, 2000 (incorporated by reference to Exhibit 10.1 to Form 8-K dated September 21, 2000).
- 10.32 Commitment Warrant issued to Swartz Private Equity LLC dated August 23, 2000 (incorporated by reference to Exhibit 10.2 to Form 8-K dated September 21, 2000).
- 10.33 Warrant Anti-Dilution Agreement between USA and Swartz Private Equity, LLC dated September 15, 2000 (incorporated by reference to Exhibit 10.3 to Form 8-K dated September 21, 2000).
- 10.34 Registration Rights Agreement between USA and Swartz Private Equity dated September 15, 2000 (incorporated by reference to Exhibit 10.4 to Form 8-K dated September 21, 2000).
  
- 10.35 Agreement for Wholesale Financing and Addendum for Scheduled Payment Plan with IBM Credit Corporation dated May 6, 1999 (incorporated by reference to Exhibit 10.40 to Form 10-KSB for the fiscal year ended June 30, 1999).
- 10.36 Agreement and Plan of Merger dated April 10, 2002, by and among the Company, USA Acquisitions, Inc., Stitch Networks Corporation,

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David H. Goodman, Pennsylvania Early Stage Partners, L.P., and Maytag Holdings, Inc. (Incorporated by reference to Exhibit 2.1 to Form 10-QSB for the quarter ended March 31, 2002).

- 10.37 Cancellation of subscription Agreement between USA and Ratner & Prestia, P.C. dated March 20, 2003 (Incorporated by reference to Exhibit 10.37 to Form SB-2 Registration Statement No. 333-101032).
- 10.38 Agreement between USA and Mars Electronics, Inc. dated March 8, 2002 (Incorporated by reference to Exhibit 10.38 to Form SB-2 Registration Statement No. 333-101032).
- 10.39 Strategic Alliance Agreement between USA and ZiLOG Corporation dated October 15, 2002 (Incorporated by reference to Exhibit 10.39 to Form SB-2 Registration Statement No. 333-101032).
- 10.40 Vending Placement, Supply and Distribution Agreement between Stitch Networks Corporation, Eastman Kodak Company, Maytag Corporation and Dixie-Narco, Inc. dated December 2000 (Incorporated by reference to Exhibit 10.40 to Form SB-2 Registration Statement No. 333-101032).
- 10.41 Design and Manufacturing Agreement between USA and RadiSys dated June 27, 2000 (Incorporated by reference to Exhibit 10.41 to Form SB-2 Registration Statement No. 333-101032).
- 10.42 Loan Agreement between Stitch Networks Corporation and US Bancorp dated May 22, 2001 (Incorporated by reference to Exhibit 10.42 to Form SB-2 Registration Statement No. 333-101032).
- 10.43 Letter dated October 16, 2003 from Lurio & Associates, P.C. to Gary L. Blum, Esquire (Incorporated by reference to Exhibit 10.43 to Form SB-2 Registration Statement No. 33-101032).
- 10.44 Termination Agreement dated December 31, 2003 by and between Eastman Kodak Company, Maytag Corporation, Dixie-Narco, Inc. and Stitch Networks Corporation. (Incorporated by reference to Exhibit 10.6 to Form 10-QSB filed on February 12, 2004).
- 10.45 Option Certificate (No. 198) dated April 28, 2004 in favor of Mary West Young.
- 10.46 Employment and Non-Competition Agreement between USA and Mary West Young dated April 28, 2004.
- \*\*23.1 Consent of Ernst & Young, LLP
- \*\*23.2 Consent of Anton Collins Mitchell, LLP

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\*\* Filed Herewith

Item 28. Undertakings.

The undersigned registrant hereby undertakes:

- (1) To file, during any period in which offers or sales are being made, a

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post-effective amendment to this registration statement:

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

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

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

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

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

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing this Amendment No. 1 to Form SB-2 and has duly caused this Amendment No. 1 to Registration Statement on Form SB-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in Malvern, Pennsylvania, on August 5, 2004.

USA TECHNOLOGIES, INC.

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

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

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 1 to the Registration Statement has been duly signed below by the following persons in the capacities and dates indicated.

Signatures -----	Title -----	Date ----
/s/ George R. Jensen, Jr. ----- George R. Jensen, Jr.	Chairman of the Board, and Chief Executive Officer (Principal and Chief Executive Officer) Director	August 5, 2004
/s/ Mary West Young ----- Mary West Young	Chief Financial Officer (Principal Accounting Officer)	August 5, 2004
/s/ Stephen P. Herbert ----- Stephen P. Herbert	President, Chief Operating Officer, Director	August 5, 2004
* ----- William W. Sellers	Director	August 5, 2004
* -----	Director	August 5, 2004

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William L. Van Alen, Jr.

\* Director August 5, 2004  
-----  
Steven Katz

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\* Director August 5, 2004  
-----  
Douglas M. Lurio

\* Attorney-in-Fact pursuant to the Power of Attorney previously provided as part of the Registration Statement.

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Exhibit Index

Exhibit Number	Description
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23.1	Consent of Ernst & Young, LLP
23.2	Consent of Anton Collins Mitchell, LLP

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