USA TECHNOLOGIES INC
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USA TECHNOLOGIES, INC.

2,854,381 shares of Common Stock

THE OFFERING

The resale by our selling shareholder of up to 2,854,381 shares of common stock on The NASDAQ Global Market at the prevailing market price or in negotiated transactions. We are registering these shares as required by the terms of the registration rights agreements between the selling shareholder and us. Such registration does not mean that the selling shareholder will actually offer or sell any of these shares. We will receive no proceeds from the sale of the shares by the selling shareholder. We will receive proceeds from the sale of shares issuable by us upon the exercise of warrants by the selling shareholder. Of the shares covered by this prospectus, 833,333 are shares underlying warrants issuable as of the date of this prospectus together with an additional 70,622 shares that may be issuable under the warrants in the future in the event of the issuance of securities by us at a price that is less than the exercise price of the warrants. These warrants may be exercised at $6.40 per share at any time before September 14, 2013.

Our common stock is listed on The NASDAQ Global Market under the symbol “USAT.” On June 23, 2008, the last reported sale price of our common stock was $5.83 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.

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 June 30, 2008.

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PROSPECTUS SUMMARY

OUR COMPANY

USA Technologies, Inc. (the “Company”, “We” and “Our”) was incorporated in the Commonwealth of Pennsylvania in January 1992. The Company offers a suite of networked devices and associated wireless non-cash payment, control/access management, remote monitoring and data reporting services. As a result of the acquisition of the assets of Bayview Technology Group, LLC ("Bayview") in July 2003, our Company also manufactures and sells energy management products which reduce the power consumption of various equipment, such as refrigerated vending machines and glass front coolers, thus reducing the energy costs associated with operating this equipment.

As of March 31, 2008, the Company had approximately 31,000 devices connected to its USALive® network. During the quarter ended March 31, 2008, the Company processed approximately 3.2 million transactions totaling over $9.0 million.

OUR BUSINESS

Our networked devices and associated services enable the owners and operators of everyday, stand-alone, distributed assets, such as vending machines, personal computers, copiers, faxes, kiosks and laundry equipment, the ability to remotely monitor, control and report on the results of these distributed assets, as well as the ability to offer their customers alternative cashless payment options.

OUR MARKET

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

RESEARCH AND DEVELOPMENT COSTS

Research and development expenses, which are included in general and administrative and compensation expense in the Consolidated Statements of Operations, were approximately $1,355,000, $974,000, and $1,364,000 for the years ended June 30, 2007, 2006 and 2005, respectively, and $405,000 (unaudited) and $992,000 (unaudited) for the nine months ended March 31, 2008 and 2007, respectively.

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ABOUT OUR OFFERING

Our selling shareholder is, as of the date of this prospectus:

- § the holder of 1,950,426 shares covered by this prospectus; and
- § the holder of unexercised warrants which, if exercised, would represent 833,333 shares, which are covered by this prospectus.

Pursuant to the registration rights agreement between the selling shareholder and us, we agreed to include in this prospectus an additional 70,622 shares that may be issuable under the warrants if we would issue securities in the future at a price less than the exercise price of the warrants.

Based upon the 15,138,470 shares of Common Stock outstanding as of March 31, 2008, and assuming all of the warrants are exercised for 833,333 shares, we would have 15,971,803 shares outstanding.

The shares covered by this prospectus would be offered by our selling shareholder at the market price at the time of resale. Our selling shareholder may also sell its shares to other investors in a transaction not on the open market. There is no requirement that our selling shareholder sell its shares pursuant to this prospectus.

We will not receive any of the proceeds raised by the offering. We would receive proceeds from the exercise of the warrants referred to above.

RISK FACTORS

RISKS RELATING TO OUR BUSINESS

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, 2008, our cumulative losses from operations are approximately $158 million. For our fiscal years ended June 30, 2007, 2006 and 2005, we have incurred net losses of $17,782,458, $14,847,076 and $15,499,190, respectively, and a net loss of $12,663,201 during the nine months ended March 31, 2008. If we continue to incur losses, the price of our common stock can be expected to fall.

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

There is currently limited experience upon which to assume that our business will prove financially profitable or generate sufficient revenues to cover our expenses. From inception, we have generated funds primarily through the sale of securities. Although we believe that we have adequate existing resources to provide for our funding requirements through at least June 30, 2009, there can be no assurances that we will be able to continue to generate sufficient funds thereafter. 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. During the first nine months of the fiscal year ending June 30, 2008, cash used in operating activities, including requirements for capital expenditures and replacement of long-term debt, was approximately $1,200,000 per month. Assuming that the Company's monthly cash requirement for each of the next fifteen months was $1,200,000, or an aggregate of $18,000,000, and assuming further that the cash cost reductions described in "Liquidity And Capital Resources" on page 33 of $4,600,000 per annum ($5,750,000 for fifteen months) are fully realized during the next fifteen months, the Company's cash requirements, including requirements for capital expenditures and repayments of long-term debt during the next fifteen months, would be approximately $12,250,000. Subsequent to July 1, 2009, 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.

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We may be required to incur further debt to meet future capital requirements of our business. Should we be required to incur additional debt, the restrictions imposed by the terms of our debt could adversely affect our financial condition and our ability to respond to changes in our business.

If we incur additional debt, we may be subject to the following risks:

- our vulnerability to adverse economic conditions and competitive pressures may be heightened;
- our flexibility in planning for, or reacting to, changes in our business and industry may be limited;
- we may be sensitive to fluctuations in interest rates if any of our debt obligations are subject to variable interest rates; and
- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes may be impaired.

We cannot assure you our leverage and such restrictions will not materially and adversely affect our ability to finance our future operations or capital needs or to engage in other business activities. In addition, we cannot assure you additional financing will be available when required or, if available, will be on terms satisfactory to us.

The loss of one or more of our key customers could significantly reduce our revenues and profits.

We have derived, and believe we may continue to derive, a significant portion of our revenues from a limited number of large customers. Approximately 41% and 39% of the Company's accounts and finance receivables at June 30, 2007 and 2006, respectively, were concentrated with two customers each year, and 58% as of March 31, 2008 were concentrated with two customers. Approximately 40%, 29% and 11% of the Company's revenues for the year ended June 30, 2007, 2006 and 2005, respectively, were concentrated with one, two and one customer(s), respectively. Approximately 56% (40% with one customer and 16% with another customer) and 50% (43% with one customer and 7% with another customer) of the Company’s revenues for the nine months ended March 31, 2008 and 2007, respectively, were concentrated with two customers. Our customers may buy less of our products or services depending on their own technological developments, end-user demand for our products and internal budget cycles. A major customer in one year may not purchase any of our products or services in another year, which may negatively affect our financial performance. If any of our large customers significantly reduce or delay purchases from us or if we are required to sell products to them at reduced prices or unfavorable terms, our results of operations and revenue could be materially adversely affected.

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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:

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

We have entered into an employment agreement with Mr. Jensen that expires on June 30, 2009. We have also entered into employment agreements with other executive officers, each of which contain confidentiality and 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 President, Stephen P. Herbert. 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.

We also may be unable to retain other existing senior management, sales personnel and development and engineering personnel critical to our ability to execute our business plan, which could result in harm to key customer relationships, loss of key information, expertise or know-how and unanticipated recruitment and training costs.

Our dependence on proprietary technology and limited ability to protect our intellectual property may adversely affect our ability to compete.

Challenge to our ownership of our intellectual property could materially damage our business prospects. Our technology may infringe upon the proprietary rights of others. Our ability to execute our business plan 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.

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As of May 31, 2008, we have 18 pending United States patent applications and 8 pending foreign 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 69 patents as of May 31, 2008. 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;
- 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.

If we are unable to adequately protect our proprietary technology, third parties may be able to compete more effectively against us, which could result in the loss of customers and our business being adversely affected. Patent and proprietary rights litigation entails substantial legal and other costs, and diverts company resources as well as the attention of our management. There can be no assurance we will have the necessary financial resources to appropriately defend or prosecute our rights in connection with any such litigation.

Competition from others with greater resources could prevent the Company from increasing revenue and achieving profitability.

Competition from other companies that are well established and have substantially greater resources may reduce our profitability or reduce our business opportunities. 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;
- 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 the Company; 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 the Company's Business Express®.

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In addition, it is also possible that a company not currently engaged in any of the businesses described above could develop services and products that compete with our services and products. 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.

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 various suppliers to assist us to develop and manufacture our e-Port® products and with various suppliers to manufacture our energy miser 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. We have contracted with IBM and DBSi to host our network in a secure, 24/7 environment to ensure the reliability of our network services. We also have contracted with multiple land-based telecommunications providers to ensure the reliability of our land-based network. 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.

A disruption in the manufacturing capabilities of our third-party manufacturers, suppliers or distributors would negatively impact our ability to meet customer requirements.

We depend upon third-party manufacturers, suppliers and distributors to deliver components free from defects, competitive in functionality and cost, and in compliance with our specifications and delivery schedules. Since we generally do not maintain large inventories of our products or components, any termination of, or significant disruption in, our manufacturing capability or our relationship with our third-party manufacturers or suppliers may prevent us from filling customer orders in a timely manner.

We have occasionally experienced, and may in the future experience, delays in delivery of products and delivery of products of inferior quality from third-party manufacturers. Although alternate manufacturers and suppliers are generally available to produce our products and product components, the number of manufacturers or suppliers of some of our products and components is limited, and a qualified replacement manufacturer or supplier could take several months. In addition, our use of third-party manufacturers reduces our direct control over product quality, manufacturing timing, yields and costs. Disruption of the manufacture or supply of our products and components, or a third-party manufacturer's or supplier's failure to remain competitive in functionality, quality or price, could delay or interrupt our ability to manufacture or deliver our products to customers on a timely basis, which would have a material adverse effect on our business and financial performance.

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Our reliance on our wireless telecommunication service provider exposes us to a number of risks over which we have no control, including risks with respect to increased prices and termination of essential services.

The operation of our wirelessly networked devices depends upon the capacity, reliability and security of services provided to us by our wireless telecommunication services provider, AT&T Mobility. We have no control over the operation, quality or maintenance of these services or whether the vendor will improve its services or continue to provide services that are essential to our business. In addition, our wireless telecommunication services provider may increase its prices at which it provides services, which would increase our costs. If our wireless telecommunication services provider were to cease to provide essential services or to significantly increase its prices, we could be required to find alternative vendors for these services. With a limited number of vendors, we could experience significant delays in obtaining new or replacement services, which could lead to slowdowns or failures of our network. In addition, we may have to replace our existing e-Port devices that are already installed in the marketplace. This could significantly harm our reputation and could cause us to lose customers and revenues.

Our products may contain defects that may be difficult or even impossible to correct, which could result in lost sales, additional costs and customer erosion.

We offer technically complex products which, when first introduced or released in new versions, may contain software or hardware defects that are difficult to detect and correct. The existence of defects and delays in correcting them could result in negative consequences, including the following:

- delays in shipping products;
- cancellation of orders;
- additional warranty expense;
- delays in the collection of receivables;
- product returns;
- the loss of market acceptance of our products;
- diversion of research and development resources from new product development; and
- inventory write-downs.

Even though we test all of our products, defects may continue to be identified after products are shipped. In past periods, we have experienced various issues in connection with product launches, including the need to rework certain products and stabilize product designs. Correcting defects can be a time-consuming and difficult task. Software errors may take several months to correct, and hardware errors may take even longer.

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We may accumulate excess or obsolete inventory that could result in unanticipated price reductions and write downs and adversely affect our financial results.

Managing the proper inventory levels for components and finished products is challenging. In formulating our product offerings, we have focused our efforts on providing our customers products with greater capability and functionality, which requires us to develop and incorporate the most current technologies in our products. This approach tends to increase the risk of obsolescence for products and components we hold in inventory and may compound the difficulties posed by other factors that affect our inventory levels, including the following:

- the need to maintain significant inventory of components that are in limited supply;
- buying components in bulk for the best pricing;
- responding to the unpredictable demand for products;
- responding to customer requests for short lead-time delivery schedules;
- failure of customers to take delivery of ordered products; and
- product returns.

If we accumulate excess or obsolete inventory, price reductions and inventory write-downs may result, which could adversely affect our results of operation and financial condition.

We may not be able to adapt to changing technology and our customers' technology needs.

We face rapidly changing technology and frequent new service offerings by competitors that can render existing services obsolete or unmarketable. Our future depends, in part, on our ability to enhance existing services and to develop, introduce and market, on a timely and cost effective basis, new services that keep pace with technological developments and customer requirements. Developing new products and technologies is a complex, uncertain process requiring innovation and accurate anticipation of technological and market trends. When changes to the product line are announced, we will be challenged to manage possible shortened life cycles for existing products, continue to sell existing products and prevent customers from returning existing products. Our inability to respond effectively to any of these challenges may have a material adverse effect on our business and financial success.

Our products may fail to gain widespread market acceptance. As a result, we may not generate sufficient revenues or profit margins to become successful.

There can be no assurances that demand for our products will be sufficient to enable us to generate sufficient revenue or become profitable. Likewise, no assurance can be given that we will be able to install the e-Ports at enough locations or sell equipment utilizing our network or our energy management products 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 competitors' 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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Our internal control over financial reporting may not be effective and our independent registered public accounting firm may not be able to certify as to its effectiveness, which could have a significant and adverse effect on our business and reputation.

We are evaluating our internal control over financial reporting in order to allow management to report on, and our independent registered public accounting firm to attest to, our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002 and rules and regulations of the SEC thereunder, which we refer to as Section 404. We are currently performing the system and process evaluation and testing required (and any necessary remediation) in an effort to comply with management certification and auditor attestation requirements of Section 404. At the present time, we anticipate the management certification requirement of Section 404 will initially apply to our Annual Report on Form 10-K for our fiscal year ended June 30, 2008 and the auditor attestation requirement for our fiscal year ended June 30, 2009. As we are still in the evaluation process, we may identify conditions that may result in significant deficiencies or material weaknesses in the future. A material weakness is a significant deficiency, as currently defined by the Public Accounting Oversight Board ("PCAOB"), or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected by company personnel in the normal course of performing their assigned functions. Auditing Standard No. 5 was approved by the Securities and Exchange Commission on July 25, 2007 and is effective for audits of internal control over financial reporting required by Section 404(b) of the Sarbanes-Oxley Act of 2002 for fiscal years ending on or after November 15, 2007.

We cannot be certain as to the timing of completion of our evaluation, testing and any remediation actions or the impact of the same on our operations. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, our internal controls would be considered ineffective for purposes of Section 404, our independent auditors may not be able to certify as to the effectiveness of our internal control over financial reporting and we may be subject to sanctions or investigation by regulatory authorities, such as the SEC. As a result, there could be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. In addition, we may be required to incur costs in improving our internal control system and the hiring of additional personnel. Any such action could negatively affect our results.

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Security is vital to our customers and therefore breaches in the security of transactions involving our products or services could adversely affect our reputation and results of operations.

Protection against fraud is of key importance to purchasers and end-users of our products. We incorporate security features, such as encryption software and secure hardware, into our products to protect against fraud in electronic payment transactions and to ensure the privacy and integrity of consumer data. Our products may be vulnerable to breaches in security due to defects in the security mechanisms, the operating system and applications or the hardware platform. Security vulnerabilities could jeopardize the security of information transmitted or stored using our products. In general, liability associated with security breaches of a certified electronic payment system belongs to the institution that acquires the financial transaction. In addition, we have not experienced any material security breaches affecting our business. However, if the security of the information in our products is compromised, our reputation and marketplace acceptance of our products will be adversely affected, which would adversely affect our results of operations, and subject us to potential liability.

Credit card issuers have promulgated credit card security guidelines as part of their ongoing efforts to battle identity theft and credit card fraud.

We continue to work with credit card issuers to assure that our products and services comply with these rules. There can be no assurances, however, that our products and services are invulnerable to unauthorized access or hacking. When there is unauthorized access to credit card data that results in financial loss, there is the potential that parties could seek damages from us.

We are subject to laws and regulations that affect the products, services and markets in which we operate. Failure by us to comply with these laws or regulations would have an adverse effect on our business, financial condition, or results of operations.

We are, among other things, subject to banking regulations and credit card association regulations. Failure to comply with these regulations may result in the suspension or revocation of our business, the limitation, suspension or termination of service, and/or the imposition of fines that could have an adverse effect on our financial condition. Additionally, changes to legal rules and regulations, or interpretation or enforcement thereof, could have a negative financial effect on the Company and our product offerings. The payment processing industry may become subject to regulation as a result of recent data security breaches that have exposed consumer data to potential fraud. To the extent this occurs, we could be subject to additional technical, contractual or other requirements as a condition of our continuing to conduct our payment processing business. These requirements could cause us to incur additional costs, which could be significant, or to lose revenues to the extent we do not comply with these requirements.

RISKS RELATED TO OUR COMMON STOCK

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.

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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, 2008, the unpaid and cumulative dividends on the series A preferred stock equal $9,773,300. The unpaid and cumulative dividends on the series A preferred stock are convertible into shares of common stock at the rate of $1000 per share at the option of the shareholder. During the years ended June 30, 2007 and 2006 and the nine months ended March 31, 2008, certain holders of the Preferred Stock converted 1,150, 1,200 and 0 (unaudited), respectively, into 11, 12 and 0 (unaudited) shares of Common Stock, respectively. Certain of these shareholders also converted cumulative preferred dividends of $15,000, $18,320 and $0 (unaudited), respectively, into 15, 18 and 0 (unaudited) shares of Common Stock during the years ended June 30, 2007 and 2006 and the nine months ended March 31, 2008, respectively. There were no conversions of preferred stock or cumulative preferred dividends during the year ended June 30, 2005.

Sales of shares eligible for future sale from exercise of warrants and options could depress the market price of our Common Stock.

As of March 31, 2008, we had issued and outstanding options to purchase 161,875 shares of our common stock and warrants to purchase 1,591,735 shares. The shares underlying none of these options, and 833,333 of these warrants have been registered and may be freely sold. 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.

The limited prior public market and trading market may cause possible volatility in our stock price.

The overall market for securities in recent years has experienced extreme price and volume fluctuations that have particularly affected the market prices of many smaller companies. The trading price of our Common Stock is expected to be subject to significant fluctuations including, but not limited to, the following:

- quarterly variations in operating results and achievement of key business metrics;
- changes in earnings estimates by securities analysts, if any;
- any differences between reported results and securities analysts' published or unpublished expectations;

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- o announcements of new contracts or service offerings by us or our competitors;
- o market reaction to any acquisitions, joint ventures or strategic investments announced by us or our competitors;
- o demand for our services and products;
- o shares being sold pursuant to Rule 144 or upon exercise of warrants; and
- o general economic or stock market conditions unrelated to our operating performance.

These fluctuations, as well as general economic and market conditions, may have a material or adverse effect on the market price of our Common Stock.

The substantial market overhang of our shares 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. As of March 31, 2008, these shares consisted of the following:

- o 15,138,470 shares of Common Stock
- o 5,203 shares issuable upon conversion of the Series A Preferred Stock
- o 9,773 shares issuable upon conversion of the accrued and unpaid dividends on the Series A Preferred Stock
- o 833,333 shares underlying vested Common Stock warrants; and
- o 73,287 shares issuable under our 2007-A Stock Compensation Plan.

Director and officer liability is limited.

As permitted by Pennsylvania law, our by-laws limit the liability of our directors for monetary damages for breach of a director's fiduciary duty except for liability in certain instances. As a result of our by-law provisions and Pennsylvania law, shareholders may have limited rights to recover against directors for breach of fiduciary duty. In addition, our by-laws and indemnification agreements entered into by the Company with each of the officers and Directors provide that we shall indemnify our directors and officers to the fullest extent permitted by law.

Our publicly-filed reports are reviewed by the SEC from time to time and any significant changes required as a result of any such review may result in material liability to us, and have a material adverse impact on the trading price of our Common Stock.

The reports of publicly-traded companies are subject to review by the SEC from time to time for the purpose of assisting companies in complying with applicable disclosure requirements and to enhance the overall effectiveness of companies' public filings, and comprehensive reviews of such reports are now required at least every three years under the Sarbanes-Oxley Act of 2002. SEC reviews may be initiated at any time. While we believe that our previously filed SEC reports comply, and we intend that all future reports will comply in all material respects with the published SEC rules and regulations, we could be required to modify or reformulate information contained in prior filings as a result of an SEC review. Any modification or reformulation of information contained in such reports could be significant and result in material liability to us and have a material adverse impact on the trading price of our Common Stock.

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USE OF PROCEEDS

We will not receive any of the proceeds from the sales of our Common Stock by the selling shareholder. The selling shareholder entitled to receive the net proceeds from any sales of our common stock is listed on page 72 of this prospectus. We will, however, receive proceeds from the exercise of any warrants by the selling shareholder.

As of the date of this prospectus, we would receive $5,333,331.20 of proceeds from the exercise of the warrants for 833,333 shares at the stated exercise price of $6.40 per share. As of June 23, 2008, the exercise price of these warrants is not in the money.

As discussed in the "Other Events" section of this prospectus, the warrants may not be exercised by the selling shareholder to the extent such exercise would cause the selling shareholder to beneficially own more than 9.99% of our then issued and outstanding shares. As of the date of this prospectus, our selling shareholder is the beneficial owner of more than 9.99% of our shares and therefore, the warrants are not presently exercisable by the selling shareholder.

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SELECTED FINANCIAL DATA

The following selected financial data for the five years ended June 30, 2007 are derived from the audited consolidated financial statements of USA Technologies, Inc. The financial data for the nine months ended March 31, 2008 and 2007 are derived from unaudited consolidated financial statements. The unaudited consolidated financial statements include all adjustments, consisting of normal recurring accruals, which USA Technologies, Inc. considers necessary for a fair presentation of the financial position and the results of operations for these periods. Operating results for the nine months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the entire year ending June 30, 2008. The data should be read in conjunction with the consolidated financial statements, related notes, and other financial information.

	Year ended June 30				
	2007	2006	2005	2004	2003
OPERATIONS DATA					
Revenues	$ 9,158,012	$ 6,414,803	$ 4,677,989	$ 5,632,815	$ 2,853,068
Net loss	(17,782,458)	(14,847,076)	(15,499,190)	(21,426,178)	(21,965,499)
Cumulative preferred dividends	(781,451)	(783,289)	(784,113)	(786,513)	(793,586)
Loss applicable to common shares	$ (18,563,909)	(15,630,365)	$ (16,283,303)	$ (22,212,691)	$ (22,759,085)
Loss per common share (basic and diluted)	$ (2.13)	$ (3.15)	$ (4.18)	$ (7.70)	$ (20.36)
Cash dividends per common share	$ --	$ --	$ --	$ --	$ --
BALANCE SHEET DATA					
Total assets	$ 34,491,497	$ 23,419,466	$ 23,391,765	$ 25,880,577	$ 17,892,681
Convertible Senior Notes and other long-term debt	$ 1,029,745	$ 7,780,853	$ 9,337,300	$ 7,273,056	$ 9,213,699
Shareholders' equity	$ 28,084,206	$ 11,177,064	$ 9,309,185	$ 14,108,662	$ 3,692,083

	Nine months ended March 31	
	2008	2007
OPERATIONS DATA		
Revenues	$ 11,078,571	$ 6,711,033
Net loss	(12,663,201)	(12,176,860)
Cumulative preferred dividends	(780,588)	(781,451)
Loss applicable to common shares	$ (13,443,789)	$ (12,958,311)
	$ (0.97)	$ (1.65)

Loss per common share (basic and diluted)				
Cash dividends per common share	$	--	$	--
BALANCE SHEET DATA				
Total assets	$	42,974,500	$	35,210,838
Convertible Senior Notes and other long-term debt	$	522,346	$	2,930,612
Shareholders' equity	$	36,244,062	$	27,807,757

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QUARTERLY FINANCIAL DATA

Unaudited quarterly results of operations for the years ended June 30, 2007 and 2006 and the nine months ended March 31, 2008 follow and should be read in conjunction with the consolidated financial statements, related notes and other financial information and the Company's quarterly reports on Form 10-Q for the fiscal years 2007 and 2006 and the nine months ended March 31, 2008.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
YEAR ENDED JUNE 30, 2007					
Revenues	$ 2,008,897	$ 2,011,722	$ 2,690,414	$ 2,446,979	$ 9,158,012
Gross profit	$ 615,536	$ 284,189	$ 317,940	$ 128,568	$ 1,346,233
Net loss	$ (3,680,314)	$ (4,377,088)	$ (4,119,458)	$ (5,605,598)	$ (17,782,458)
Cumulative preferred dividends	$ (391,157)	$ -	$ (390,294)	$ -	$ (781,451)
Loss applicable to common shares	$ (4,071,471)	$ (4,377,088)	$ (4,509,752)	$ (5,605,598)	$ (18,563,909)
Loss per common share (basic and diluted)	$ (0.63)	$ (0.60)	$ (0.45)	$ (0.49)	$ (2.13)
YEAR ENDED JUNE 30, 2006					
Revenues	$ 1,363,886	$ 1,957,753	$ 1,618,776	$ 1,474,388	$ 6,414,803
Gross profit	$ 314,927	$ 787,882	$ 687,749	$ 219,788	$ 2,010,346
Net loss	$ (3,196,872)	$ (2,864,091)	$ (3,313,868)	$ (5,472,245)	$ (14,847,076)
Cumulative preferred dividends	$ (392,057)	$ -	$ (391,232)	$ -	$ (783,289)
Loss applicable to common shares	$ (3,588,929)	$ (2,864,091)	$ (3,705,100)	$ (5,472,245)	$ (15,630,365)
Loss per common share (basic and diluted)	$ (0.90)	$ (0.61)	$ (0.74)	$ (0.96)	$ (3.15)
NINE MONTHS ENDED MARCH 31, 2008					
Revenues	$ 11,078,571				
Gross profit	$ 2,457,808				
Net loss	$ (12,663,201)				
Cumulative preferred dividends	$ (780,588)				
Loss applicable to common shares	$ (13,443,789)				
Loss per common share (basic and diluted)	$ (0.97)				

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

MANAGEMENT’S 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. License fees for access to the Company's devices and network services are recognized on a monthly basis. Product revenues are recognized for the sale of products from Company owned vending machines when there is purchase and acceptance of product by the vending customer. In all cases, revenue is only recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed and determinable, and collection of the resulting receivable is reasonably assured. The Company estimates an allowance for product returns at the date of sale.

SOFTWARE DEVELOPMENT COSTS

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

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During May 2000, the Company reached technological feasibility for the development of the multi-media e-Port(TM) product and related internal 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 year 2002, the multi-media e-Port(TM) client product and enhanced network became available for general release to the Company's customers. During this quarter, management performed an evaluation of the commercial success and preliminary market acceptance of the multi-media e-Port(TM) 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 was amortized over an estimated useful life of two years and was fully amortized during the year ended June 30, 2004. Accumulated amortization was $5,326,186 at March 31, 2008, and June 30, 2007, 2006, and 2005. Amortization expense was approximately $999,000 during the year ended June 30, 2004. Such amortization is reflected in cost of sales in the accompanying consolidated statements of operations.

IMPAIRMENT OF LONG LIVED ASSETS

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

During the fourth quarter of fiscal year 2003, the Company reviewed certain long-lived assets (vending machines) and determined that such assets were impaired. These vending machines were used and intended for use in connection with the Company's program with Kodak to sell disposable cameras and film pursuant to the Kodak Vending Placement Agreement. Management determined that it was more likely than not that these vending machines would be disposed of before the end of their previously estimated useful lives. The estimated undiscounted cash flows for this group of assets were 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. Effective December 31, 2003, the Kodak agreement was terminated. As a result, the carrying value of the vending machines were further impaired and a charge of approximately $367,000 was recorded as a component of the gain on contract settlement in the June 30, 2004 Consolidated Statement of Operations to reflect these assets at their realizable value. The remaining value of these vending machines was then recorded as assets held for sale in the Consolidated Balance Sheets as of June 30, 2004. During the year ended June 30, 2005, the Company wrote off the remaining value of the vending machines that had not been sold during the year as a loss on contract settlement.

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GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of cost over fair value of the net assets purchased in acquisitions. The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). Under FAS 142, goodwill is not amortized to earnings, but instead is subject to periodic testing for impairment. The Company tests goodwill for impairment using a two-step process. The first step screens for potential impairment, while the second step measures the amount of impairment. The Company uses a discounted cash flow analysis to complete the first step in this process. Testing for impairment is to be done at least annually and at other times if events or circumstances arise that indicate that impairment may have occurred. The Company has selected April 1 as its annual test date. The Company has concluded there has been no impairment of goodwill as a result of its testing on April 1, 2006, April 1, 2007, and April 1, 2008. During the nine months ended March 31, 2008, no events or circumstances arose indicating that an impairment of goodwill may have occurred.

Patents, trademarks and non-compete agreements are carried at cost less accumulated amortization, which is calculated on a straight-line basis over their estimated economic life. The Company reviews intangibles for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An asset is considered to be impaired when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. The amount of the impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value.

Intangible assets include patents, trademarks and non-compete arrangements purchased in acquisitions. Amortization expense related to these intangible assets was $1,236,600, $1,236,600, and $1,236,600 during the years ended June 30, 2007, 2006, and 2005, respectively, and $927,450 and $927,450 for the nine months ended March 31, 2008 and 2007, respectively.

INVESTMENTS

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

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During the year ended June 30, 2003, the Company issued 150,000 shares of its Common Stock ($2,850,000) for an investment in 1,870,091 shares in the Jubilee Investment Trust, PLC ("Jubilee"), a United Kingdom Investment Trust whose shares trade on the London Stock Exchange. The Company agreed not to sell the Jubilee shares for a period of 90 days from January 24, 2003 and to sell a maximum of 10% of the Jubilee shares during each month thereafter. Jubilee agreed not to sell the Company's shares of Common Stock for a period of two years from the date of issuance unless agreed to by the Company.

During fiscal year 2004, the Company sold 1,669,091 of the Jubilee shares for net proceeds of $1,471,140 and realized a gain of $603,480, with the cost of the securities calculated by the specific identification method. An unrealized gain of $3,080 and $32,249 on the shares held by the Company was reflected in shareholders' equity as accumulated other comprehensive income at June 30, 2005 and 2004, respectively. During fiscal year 2006, the Company sold the remaining 70,000 shares for net proceeds of $19,243 and realized a loss of $16,087, with the cost of the securities calculated by the specific identification method.

As of March 31, 2008, available-for-sales securities consisted of $14,150,000 par value of auction rate securities (“ARS”) that were purchased during January 2008. The Company’s ARS are long-term variable rate securities whose dividend rates are reset every seven days through a “dutch auction” conducted by investment banks. We have the option to participate in the auction and sell our ARS to prospective buyers at par value. Our ARS are all AAA or Aaa rated, and represent preferred stock of closed-end investment funds. Our ARS have no fixed maturity dates.

Until February 2008, the auction process had allowed investors to obtain liquidity if so desired by selling the securities at their par values on the weekly auction date. However, beginning the week of February 11, 2008, the auctions for our ARS failed as a result of negative overall market conditions, meaning there were not enough buyers to purchase the amount of securities available for sale at auction. The result of a failed auction, which does not signify a default by the issuer, is that the ARS continue to pay dividends in accordance with their terms, but we are not able to liquidate any of these securities until these securities are redeemed by the issuer, or until there is a successful auction, or until such time as other markets for these investments develop.

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As of March 31, 2008, we have classified $7,575,000 of our ARS as current assets as we have received a notice of redemption at par value from the issuer subsequent to March 31, 2008, and classified the remaining $6,575,000 of our ARS as non-current assets. Although we have uncertainty with regard to the short-term liquidity of these securities, we continue to believe that the par value represents the fair value of these investments. We currently anticipate that we will be able to realize the par value of our ARS either through redemption by the issuer, successful auction, or through a buyer outside of the auction process and believe that we have the ability to hold these securities for a sufficient period of time for us to realize the par value of these securities. As such, there was no unrealized loss recorded as of March 31, 2008 in connection with our ARS investments.

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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 or to fund development and marketing of its products; (vii) the ability of the Company to obtain approval of its pending patent applications or the risk that its technologies would infringe patents owned by others, (viii) the ability of the Company to satisfy its trade obligations included in accounts payable and accrued liabilities, (ix) the ability of the Company to predict or estimate its future quarterly or annual revenues given the developing and unpredictable market for its products and the lack of established revenues; (x) the ability of the Company to retain key customers as a significant portion of its revenues is derived from a limited number of key customers; (xi) the ability of a key customer to reduce or delay purchasing products from the Company; and (xii) the risk that the Company may have to take an impairment charge relating to its ARS investments in the future, or may have to sell its ARS investments below par value in the future. 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, 2008

Revenues for the nine months ended March 31, 2008 were $11,078,571 compared to $6,711,033 for the corresponding nine-month period in the previous fiscal year. This $4,367,538 or 65% increase was primarily due to an increase in equipment sales of $2,897,149 and license and transaction fees of $1,470,389. The increase in equipment sales was due to an increase in sales of approximately $2,391,000 of e-Port vending equipment sales and approximately $649,000 in energy conservation equipment, offset by decreases of approximately $101,000 in business center sales and approximately $41,000 in other equipment sales. The increase in e-Port vending equipment sales was primarily related to the CCE/MasterCard Agreement and the November 2007 MasterCard Worldwide agreement. The increase in license and transaction fees was due to the increase in the number of e-Port units on our USALive® network, primarily as a result of the November 2007 MasterCard agreement and the recurring revenues being generated by the e-Ports deployed in the prior two quarters under the CCE/MasterCard Agreement.

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Cost of sales for the period consisted of equipment costs of $6,592,088 and network and transaction services related costs of $2,028,675. The increase in cost of sales of $3,127,395 or 57% over the prior year period was due to an increase in equipment costs of approximately $1,981,992 and an increase of approximately $1,145,403 of network and transaction related costs.

Gross profit for the nine months ended March 31, 2008 was $2,457,808 compared to gross profit of $1,217,665 for the corresponding nine-month period in the previous fiscal year. This 102% increase is primarily due to an increase in the profit margins of both the energy equipment sales as well as the e-Port vending equipment sales as a result of producing the products at a lower cost primarily due to offshore production, as well as selling both of the products at higher average sales prices.

Selling, general and administrative expense of $14,226,973, increased by $3,820,198 or 37% primarily due to an increase in compensation expense of approximately $2,348,000, an increase in professional and consulting services of approximately $607,000, an increase in recruiting fees of approximately $388,000, and an increase of approximately $189,000 in facilities expense, and an increase in bad debt expense of approximately $92,000.

Compensation expense increased by approximately $2,348,000 due primarily to an increase in salaries and benefits expense of approximately $1,320,000 and an increase of approximately $1,028,000 in non-cash charges related to the vesting of shares under the Long-Term Equity Incentive Program for fiscal year 2008 as compared to 2007.

Interest expense of $112,388 decreased by $1,755,408 primarily due to retirement of the outstanding convertible Senior Notes that were repaid in April 2007. Interest income increased by $581,303 due to the investment in available-for-sale securities with proceeds received from private placements.

The nine-month period ended March 31, 2008 resulted in a net loss of $12,663,201 (approximately $2.9 million of non-cash charges) compared to a net loss of $12,176,860 (approximately $3.9 million of non-cash charges) for the nine-month period ended March 31, 2007.

During fiscal year 2008, the Company intends to continue to attempt to improve its business model and financial results. In this regard, we will continue our e-Port rental program. Management believes that this rental business model will accelerate the adoption of its e-Port technology among operators that do not want to initially purchase the e-Port technology outright. During the first quarter of the 2008 fiscal year, the Company entered into a contract with a manufacturer under which the manufacturer would attempt to produce for us a lower cost e-Port device. If successful, we have committed to purchase at least $3,600,000 of the new e-Port device from this manufacturer over an eighteen month period. Finally, due to the fact that the Company, as a merchant, has recently received competitive offers from various credit card processors, the Company has discontinued considering the possibility of becoming a credit card processor at this time.

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NINE MONTHS ENDED MARCH 31, 2007

Revenues for the nine months ended March 31, 2007 were $6,711,033 compared to $4,940,414 for the corresponding nine-month period in the previous fiscal year. This $1,770,619 or 36% increase was primarily due to an increase in equipment sales of $1,580,390 and license and transaction fees of $190,229. The increase in equipment sales was due to an increase in sales of approximately $2,404,000 of e-Port vending equipment sales, relating primarily to our initiative with MasterCard Worldwide, and approximately $55,000 in other equipment sales, offset by decreases of approximately $703,000 in energy conservation equipment, approximately $114,000 in laundry equipment sales and approximately $62,000 in business center sales.

Cost of sales for the period consisted of equipment costs of $4,610,096 and network and transaction related costs of $883,272. The increase in cost of sales of $2,343,512 or 74% over the prior year period was due to an increase in equipment costs of $2,120,891 and an increase of $222,621 of network and transaction related costs. The increase in equipment costs is due to the increase in equipment sales, specifically, the increase in equipment costs was due to the change in sales mixture that consisted of an increase in our higher cost e-Port equipment, as compared to the cost of our energy conservation equipment. The increase in network and transaction costs relates to an increase in the number of devices on our network and the number of transactions processed.

Gross profit for the nine months ended March 31, 2007 was $1,217,665 compared to gross profit of $1,790,558 for the corresponding nine-month period in the previous fiscal year. This 32% decrease is primarily due to the change in equipment sales mixture that consisted of an increase in sales of e-Ports at or near cost along with a decrease in our higher margin energy Miser sales. The resulting e-Port margins were driven by our market seeding program with Mastercard Worldwide. Product pricing under this program does not reflect the Company’s current retail pricing.

General and administrative expense of $4,233,885, increased by $572,778 or 16% primarily due to an increase in consulting expense of approximately $408,000, an increase in legal fees of approximately $219,000, an increase in temporary labor expenses of approximately $84,000 and an increase of approximately $119,000 in product development costs, offset by a decrease in repairs and maintenance expense of approximately $121,000 and a decrease in royalty expense of approximately $139,000.

Compensation expense of $6,172,890 (approximately $1,213,000 of non-cash charges) increased by $1,812,954 or 42%, primarily due to an increase in salaries and benefits expense of approximately $663,000 related to the increase in the number of employees and an increase in bonus expense of approximately $1,091,000 due to non-cash charges from common stock issued to employees and executive officers and the vesting of common stock option grants to our executive officers.

Interest expense of $1,867,796 decreased by $77,994 or 4% primarily due to a reduction in the amount of interest expense relating to senior notes that were repaid early in December 2006, offset by the recognition of the remaining unamortized debt discount on the $1,645,841 of convertible Senior Notes that were repaid early in March 2007.

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The nine-month period ended March 31, 2007 resulted in a net loss of $12,176,860 (approximately $3.9 million of non-cash charges) compared to a net loss of $9,374,830 (approximately $2.2 million of non-cash charges) for the nine-month period ended March 31, 2006.

FISCAL YEAR ENDED JUNE 30, 2007

Revenues for the fiscal year ended June 30, 2007 were $9,158,012, an increase of $2,743,609 or 43% from the fiscal year ended June 30, 2006. This increase was primarily attributed to increased sales in our vending product lines. Revenues are discussed in more detail as follows:

Equipment sales: Revenues from equipment sales increased to $7,454,076 from $5,198,360 in the prior fiscal year, an increase of $2,256,116 or 43%. This increase was primarily attributed to increased sales in our vending equipment sales ($3,176,000) relating primarily to our seeding initiative with MasterCard Worldwide and other sales offset by decreases in our energy ($625,000), business center ($230,000) and laundry equipment sales ($120,000).

License and transaction fees: Revenues from license and transaction fees increased $487,493 or 40% from $1,216,443 to $1,703,936 for the fiscal years ended June 30, 2006 and 2007, respectively. This increase was primarily due to an increase in license and transaction fees from our Intelligent Vending and eSuds products due to the increased number of devices connected to our USALive® network.

Cost of equipment for the fiscal year ended June 30, 2007 was $6,442,627, compared to $3,549,450 for the fiscal year ended June 30, 2006. The increase of $2,893,177 was primarily due to an increase in vending equipment sales relating primarily to our seeding initiative with MasterCard Worldwide.

Cost of services for the fiscal year ended June 30, 2007 was $1,369,152, compared to $855,007 for the fiscal year ended June 30, 2006. The increase of $514,145 was primarily due to the increase in the number of e-Ports connected to our network relating primarily to our seeding initiative with MasterCard Worldwide.

Gross profit for the fiscal year ended June 30, 2007 was $1,346,233, compared to $2,010,346 for the fiscal year ended June 30, 2006. The decrease of $664,113 was due to an increase in sales of our vending products as part of a seeding program. Specifically, we increased the sale of our e-Ports at or near cost pursuant to our seeding program with MasterCard Worldwide which had the effect of reducing our margins. Product pricing under this program does not reflect the Company’s current retail pricing.

Total operating expenses for the fiscal year ended June 30, 2007 was $16,454,809, an increase of $2,662,664 or 19% over the prior fiscal year. The components of operating expenses (general and administrative, compensation, and depreciation and amortization) and the causes of this increase are explained in further detail, below:

Selling, general and administrative expenses increased from $12,092,552 for the fiscal year ended June 30, 2006 to $14,706,156 for the fiscal year ended June 30, 2007, an increase of $2,613,604 or 22%. The increase is due to an increase in compensation expense of approximately $1,956,000, an increase in consulting expenses of approximately $516,000, primarily related to Sarbanes-Oxley implementation costs and the setup of an equipment leasing program, and an increase in legal fees of approximately $290,000 related to intellectual property protection, offset by a reduction in royalty expenses of approximately $150,000 due to the end of the energy management product royalty term agreement. The increase in compensation expense is due to stock bonuses awarded to executive officers through the Long-Term Equity Incentive Program, which resulted in a charge of $599,311, and due to an increase in the number of full-time and part-time employees during the fiscal year.

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Total interest expense increased to $2,984,950 for the fiscal year ended June 30, 2007 from $2,878,966 in the prior fiscal year, an increase of $105,984 or 4%. The increase is a result of the repayment of all remaining outstanding Senior Notes, which resulted in expensing all of the remaining unamortized beneficial conversion features for the outstanding Senior Notes.

The fiscal year ended June 30, 2007 resulted in a net loss of $17,782,458 (approximately $5.8 million of non-cash charges) compared to a net loss of $14,847,076 (approximately $4.0 million of non-cash charges) for the prior fiscal year.

FISCAL YEAR ENDED JUNE 30, 2006

Revenues for the fiscal year ended June 30, 2006 were $6,414,803, an increase of $1,736,814 or 37% from the fiscal year ended June 30, 2005. This increase was primarily attributed to increased sales in our energy, vending and laundry product lines. Revenues are discussed in more detail as follows:

Equipment sales: Revenues from equipment sales increased to $5,198,360 from $3,535,064 in the prior fiscal year, an increase of $1,663,296 or 47%. This increase was primarily attributed to increased sales in our energy ($784,000), vending ($497,000) and laundry ($311,000) equipment sales.

License and transaction fees: Revenues from license and transaction fees increased $73,518 or 6% from $1,142,925 to $1,216,443 for the fiscal years ended June 30, 2005 and 2006, respectively. This increase was primarily due to an increase in license and transaction fees from our Intelligent Vending and eSuds products due to the increased number of devices connected to our USALive® network.

Cost of equipment for the fiscal year ended June 30, 2006 was $3,549,450, compared to $2,430,649 for the fiscal year ended June 30, 2005. The increase of $1,118,801 was primarily due to an increase in equipment sales from our energy, vending and laundry products.

Cost of services for the fiscal year ended June 30, 2006 decreased to $193,017 from $1,048,024 to $855,007 for the fiscal years ended June 30, 2005 and 2006, respectively. This decrease was primarily due to a decrease in software development costs.

Gross profit for the fiscal year ended June 30, 2006 was $2,010,346, compared to $1,199,316 for the fiscal year ended June 30, 2005. The increase of $811,030 was due to an increase in sales of our higher margin energy management products.

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Total operating expenses for the fiscal year ended June 30, 2006 was $13,792,145, an increase of $202,622 or 2% over the prior fiscal year. The components of operating expenses (General and administrative, Compensation, and Depreciation and amortization) and the causes of this increase are explained in further detail, below:

Selling, general and administrative expenses increased from $11,989,403 for the fiscal year ended June 30, 2005 to $12,092,552 for the fiscal year ended June 30, 2006, an increase of $103,149 or 1%. The increase is primarily due to an increase in compensation expense of approximately $1,332,000 due to stock bonuses and options awarded to executives as well as stock options awarded to members of the board of directors. In addition, the Company increased the number of full-time employees during the fiscal year. This increase was offset by a reduction in consulting services of approximately $918,000 and a reduction in public relations expenses of approximately $204,000.

Depreciation and amortization expense for the fiscal year ended June 30, 2006 was $1,699,593, compared to $1,600,120 for the prior fiscal year, a $99,473 or 6% increase. This increase was attributable to an increased amount of depreciation expense resulting from approximately $842,000 in property, plant and equipment purchases during the fiscal year. The majority of the purchases relate to the purchase and implementation of Oracle’s e-Business Suite, an enterprise management system.

Total interest expense decreased from $3,127,751 to $2,878,966 for the fiscal year ended June 30, 2005 and 2006, respectively, a decrease of $248,785 or 8%. The decrease is a result of a reduction in the number of conversions of Senior Notes into shares of the Company's Common Stock by Senior Note Holders. In the prior fiscal year, these conversions resulted in additional interest expense due to the accelerated amortization of debt discount charged to interest expense at the time of the conversion of the Senior Notes.

For the fiscal year ended June 30, 2006, the Company recorded a contingent loss accrual related to a proposed settlement agreement with Swartz Private Equity, LLC, as more fully described above, resulting in a contingent loss of $270,000. There were no such losses in the prior fiscal year.

The fiscal year ended June 30, 2006 resulted in a net loss of $14,847,076 (approximately $4.0 million of non-cash charges) compared to a net loss of $15,499,190 (approximately $3.6 million of non-cash charges) for the prior fiscal year.

FISCAL YEAR ENDED JUNE 30, 2005

Revenues for the fiscal year ended June 30, 2005 were $4,677,989, a decrease of $954,826 or 17% from the fiscal year ended June 30, 2004. This decrease was primarily attributed to a decrease in sales of our energy management products. Revenues are discussed in more detail as follows:

Equipment sales: Revenues from equipment sales decreased to $3,535,064 from $4,349,566 in the prior fiscal year, a decrease of $814,502 or 19%. This decrease was primarily attributed to a decrease in sales of our energy management products of approximately $1,000,000. This was a result of approximately $686,000 in sales from three large customer orders in the current fiscal year as compared to approximately $1,691,000 in sales from five large customer orders during fiscal year 2004.

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License and transaction fees: Revenues from license and transaction fees increased $165,274 or 17% from $977,651 to $1,142,925 for the fiscal years ended June 30, 2004 and 2005, respectively. This increase was primarily due to an increase in license and transaction fees from our Intelligent Vending products, which was offset by the decrease in revenues from the termination of the Kodak Vending Placement Agreement in the prior fiscal year.

Product sales and other: Revenues from product sales and other decreased to $0 from $305,598 in the prior fiscal year. This decrease was due to a decrease in camera and film sales from Company owned vending machines of approximately $105,000 as a result of the termination of the Kodak Vending Placement Agreement and a decrease of $200,000 relating to a one-time payment in the prior fiscal year related to the agreement with Unilever.

Cost of equipment for the fiscal year ended June 30, 2005 was $2,430,649, compared to $2,502,743 for the fiscal year ended June 30, 2004. The decrease of $72,094 was primarily due to a decrease in equipment sales as previously discussed.

Cost of services for the fiscal year ended June 30, 2005 was $1,048,024, compared to $828,289 for the fiscal year ended June 30, 2004. The increase of $219,735 was primarily due to an increase in the number of installed business centers.

Gross profit for the fiscal year ended June 30, 2005 was $1,119,316, compared to $1,303,123 for fiscal year ended June 30, 2004. The decrease of $183,807 was due to a reduction in sales of our higher margin energy management products.

Total operating expenses for the fiscal year ended June 30, 2005 was $13,589,523, a decrease of $5,180,899 or 28% over the prior fiscal year. The components of operating expenses (General and administrative, Compensation, Depreciation and amortization and Loss on debt modification) and the causes of this decrease are explained in further detail, below:

Selling, general and administrative expenses decreased from $16,819,178 for the fiscal year ended June 30, 2004 to $11,989,403 for the fiscal year ended June 30, 2005, a decrease of $4,829,775 or 29%. The decrease is due to a decrease in compensation expense, bad debt expense and consulting fees, which was partially offset by increases in public relations expenses. The decrease in compensation expense of approximately $4,511,000 is primarily due to the one-time issuance of 105,000 shares of Common Stock, valued at $4,620,000, to the Company's Chief Executive Officer in connection with the amendment of his employment agreement in the prior fiscal year. Additionally compensation expense increased by approximately $108,000 related to an increase in medical insurance costs.

Depreciation and amortization expense for the fiscal year ended June 30, 2005 was $1,600,120, compared to $1,632,330 for the prior fiscal year, a $32,210 or 2% decrease. This decrease was attributable to assets becoming fully depreciated during the fiscal year ended June 30, 2005.

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During the prior fiscal year, the Company incurred a charge of $318,915 related to the modification of debt terms for certain 2003 and 2004 Senior Notes. This charge represents the unamortized debt discount that remained on the Senior Notes that were scheduled to mature in December 2003 and 2004, and whose terms were substantially modified when the note holders agreed to extend the maturity date of their notes in exchange for a reduction in the conversion rate on the note. There was no such comparable charge in the fiscal year ended June 30, 2005.

During the fiscal year ended June 30, 2004, the Company sold 1,669,091 shares of its investment in the Jubilee Investment Trust for net proceeds of $1,471,140, resulting in a gain of $603,480. There were no sales of such investments during the year ended June 30, 2005.

During the fiscal year ended June 30, 2004, a gain of $429,204 was recorded relating to the termination of the Kodak Vending Placement Agreement. This gain is comprised of the payment from Kodak of approximately $675,000 plus the cancellation of Stitch's obligation to the supplier of the vending machines of approximately $124,000 less a write down of the carrying value of vending machines of approximately $367,000 and a net write-off of amounts due to and from Kodak of $3,000. During the year ended June 30, 2005, the Company wrote off the remaining value of the vending machines that had not been sold during the year as a loss on contract settlement totaling $42,300.

Total interest expense decreased from $5,032,351 to $3,127,751 for the fiscal year ended June 30, 2004 and 2005, respectively, a decrease of $1,904,600 or 38%. The decrease is a result of a reduction in the number of conversions of the Senior Notes into shares of the Company's Common Stock by Senior Note Holders. In the prior fiscal year, these conversions resulted in additional interest expense due to the accelerated amortization of debt discount charged to interest expense at the time of the conversion of the Senior Notes.

The fiscal year ended June 30, 2005 resulted in a net loss of $15,499,190 (approximately $3.6 million of non-cash charges) compared to a net loss of $21,426,178 (approximately $10.9 million of non-cash charges) for the prior fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

For the year ended June 30, 2007, net cash of $13,678,043, was used by operating activities, primarily due to the net loss of $17,782,458 offset by non-cash charges totaling $5,831,362 for transactions involving the issuance of Common Stock for services and legal settlements, stock option compensation charges, depreciation and amortization of assets, amortization of debt discount, and a gain on the repayment of Senior Notes. In addition to these non-cash charges, the Company's net operating assets increased by $1,726,947, primarily due to an increase in both accounts receivables and inventory, partially offset by an increase in accounts payable.

For the year ended June 30, 2007, net cash used in investing activities was $6,876,615, comprised of purchases of property and equipment of $526,615, primarily consisting of our implementation of Oracle’s e-Business Suite and software for product development, and the purchase of available-for-sale securities of $7,000,000 offset by the sale of available-for-sale securities of $650,000.

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Proceeds from financing activities for the year ended June 30, 2007 provided $22,851,701 of funds, which were necessary to support cash used in operating activities. Net proceeds of $30,989,109 were realized from the issuance of Common Stock and $470,000 of proceeds from a loan agreement. These proceeds were reduced by repayments of long-term debt ($305,732) and Senior Notes less discount ($8,301,676).

For the nine months ended March 31, 2008, net cash of $9,774,372 was used by operating activities, primarily due to the net loss of $12,663,201 offset by non-cash charges totaling $2,858,540 for transactions involving the vesting and issuance of common stock to employees, the vesting of stock options, bad debt expense and the depreciation and amortization of assets. In addition to these non-cash charges, the Company's net operating assets increased by $185,689 primarily due to an increase in inventories and decrease in accrued expenses, partially offset by an increase in accounts payable and slight decreases in accounts and finance receivables and prepaid expenses.

Proceeds from financing activities for the nine months ended March 31, 2008 provided $19,753,369 of funds, which were necessary to support cash used in operating activities. Net proceeds of $20,028,422 were realized from the issuance of Common Stock and exercise of Common Stock warrants, offset by the net repayment of $275,053 of long-term debt.

The Company has incurred losses since inception. Cumulative losses through March 31, 2008 amounted to approximately $158,000,000. The Company has continued to raise capital through equity offerings to fund operations.

As of March 31, 2008 the Company had $6,814,731 of cash and cash equivalents on hand and $14,150,000 of available-for-sale securities, of which $7,575,000 and $6,575,000 are classified as current and non-current, respectively (see Note 2 to the Consolidated Financial Statements). The ARS classified as non-current are all rated AAA or Aaa. The auctions for these securities failed in mid-February 2008, and the funds represented by the ARS will not be accessible until the issuer calls the security, a successful auction occurs, or a buyer is found outside of the auction process. Based on our expected operating cash flows and our other sources of cash, we do not believe that the uncertainty regarding the liquidity of our ARS will have a material impact on our overall ability to meet our liquidity needs for the next twelve months.

In order to attempt to improve our operating results, we took appropriate actions during the March 31, 2008 fiscal quarter to reduce our cash-based selling, general and administrative expenses by approximately $4,600,000 on an annualized basis. These actions consisted of staff reductions and related costs of approximately $2.6 million and reductions in our controllable costs of approximately $2.0 million. The Company anticipates that the effect of these cost reductions will begin to be reflected in the fourth quarter of the 2008 fiscal year with the full benefit of the cost reductions reflected in the 2009 fiscal year. We also believe that these cost reductions will not materially adversely affect our planned revenue growth for the foreseeable future.

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During the first nine months of the 2008 fiscal year, the Company's monthly cash requirement, including requirements for capital expenditures and repayment of long-term debt, was approximately $1,200,000 per month. Assuming that the Company's monthly cash requirement for each of the next fifteen months was $1,200,000, or an aggregate of $18,000,000, and assuming further that the cash cost reductions described above of $4,600,000 per annum ($5,750,000 for the next fifteen months) are fully realized during the next fifteen months, the Company's cash requirements, including capital expenditures and repayment of long-term debt, during the next fifteen months would be approximately $12,250,000.

Funding sources in place to meet the Company's cash requirements are primarily comprised of approximately $6,800,000 of cash and cash equivalents on hand as of March 31, 2008 and $7,575,000 of current available-for-sale securities. Based upon the assumptions described above, the Company believes these existing sources will provide sufficient funds to meet its cash requirements, including capital expenditures and repayment of long-term debt, through at least July 1, 2009.

COMMITMENTS

The Company conducts its operations from various facilities under operating leases. In March 2003, the Company entered into a lease for 12,864 square feet of space located in Malvern, Pennsylvania for its principal executive office and used for general administrative functions, sales activities, and product development. The lease term extends through December 31, 2008 and provides for escalating rent payments and a period of free rent prior to the commencement of the monthly lease payment in January 2004 of approximately $25,000 per month. During April 2005, the Company entered into an amendment to the lease covering 4,385 additional square feet that is contiguous to its existing space. The lease term was extended to December 31, 2010, and the amendment provides for a period of free rent for the additional space with rent of approximately $31,000 per month commencing in September 2005 with escalating rental payments thereafter.

The Company also leases 9,084 square feet of space, located in Malvern, Pennsylvania, on a month-to-month basis for a monthly payment of approximately $8,000. During January 2007, the Company entered into an amendment to the lease covering 4,293 additional square feet that is contiguous to its existing space. The lease term was extended to December 31, 2010, and the amendment provides for a rent of $13,377 per month with escalating rental payments through the remainder of the lease. During prior years, the facility was solely used to warehouse product. All product warehousing, shipping and customer support was transferred to this location from the executive office location during the first quarter of fiscal year 2005.

In December 2004, the Company entered into a lease for 2,837 square feet of space located in Denver, Colorado to be used for administrative functions, sales activities and product warehousing associated with our energy management products. The lease term extends through May 31, 2009 and provides for five months of free rent followed by rent payments of $1,200 per month and escalating payments beginning on June 1, 2006. The lease provides for additional rent for a prorated share of operating costs for the entire facility.

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OTHER EVENTS

On March 14, 2007, the Company entered into a Securities Purchase Agreement with S.A.C. Capital Associates, LLC, the selling shareholder under this prospectus. Pursuant thereto, the Company sold to the selling shareholder 1,666,667 shares of the Company's Common Stock at a price of $6.00 per share for an aggregate purchase price of $10,000,002. The Company also issued warrants to the selling shareholder to purchase up to 833,333 shares of Common Stock at an exercise price of $6.40 per share. There were no commissions or placement agent fees paid by the Company in connection with this offering. The warrants are exercisable at any time prior to September 14, 2013. As of the date of this prospectus, the selling shareholder has not exercised any of the warrants.

The warrant provides that if we would issue securities in the future at a purchase price that is less than the exercise price of the warrant, then the exercise price of the warrant would be reduced to such lower purchase price, provided, however, that such exercise price can never be lower than $5.90 which was the closing bid price of our shares on the day prior to the sale of our securities to the selling shareholder. The warrant also provides that in the event we issue securities at a purchase price less than the exercise price of the warrant, the number of shares issuable under the warrant shall be increased by that number of shares determined by multiplying the exercise price in effect immediately prior to such adjustment by the number of shares issuable under the warrant immediately prior to such adjustment and dividing the product thereof by the new exercise price of the warrant (which can never be less than $5.90). Under this formula, the maximum number shares that would be issuable under the warrant would be 903,955. The warrant provides that no adjustment shall be made in connection with any securities issued pursuant to any employee benefit plan for employees, officers, consultants, or directors, or to any shares issued upon the exercise or conversion of any convertible securities outstanding as of the date of the warrant.

Pursuant to the March 14, 2007 registration rights agreement between us and the selling shareholder, we agreed to register for resale in this prospectus that number of shares equal to the 1,666,667 shares purchased by the selling shareholder and the maximum of 903,955 shares issuable under the warrant issued to the selling shareholder, or an aggregate of 2,570,622 shares. The Company has agreed to keep the registration statement effective at all times until the earlier of (i) the date as of which the selling shareholder may sell all of the securities covered by such registration statement without restriction pursuant to Rule 144(k) (or any successor thereto) promulgated under the 1933 Act, or (ii) the date on which the selling shareholder shall have sold all of the securities covered by such registration statement.

Under the terms of the warrants, the selling shareholder may not exercise the warrants, to the extent such exercise would cause the selling shareholder, together with its affiliates, to beneficially own a number of shares of common stock which would exceed 9.99% of our then outstanding shares of common stock following such exercise, excluding for purposes of such determination shares of common stock issuable upon exercise of the warrants which have not been exercised. As of the date of this prospectus, our selling shareholder is the beneficial owner of more than 9.99% of our shares and therefore, the warrants are not presently exercisable by the selling shareholder.

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For a period of five years, the selling shareholder has been granted the pre-emptive right to purchase that number of securities being offered for sale by the Company in order to maintain selling shareholder's pro-rata ownership of the Common Stock of the Company following the issuance of any such securities by the Company.

The selling shareholder is an accredited investor and the offer and sale of the shares and the warrants was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act.

On October 17, 2007, the Company sold an aggregate of 2,142,871 shares of Common Stock for $7.00 per share for $15,000,097 to 37 investors pursuant to a Securities Purchase Agreement entered into with each of the investors. Pursuant to this offering, S.A.C. Capital Associates, LLC, the selling shareholder, purchased 283,759 shares for $1,986,313. The offer and sale of the shares was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act. All of these investors, including the selling shareholder, are accredited investors. Pursuant to the October 17, 2007 Registration Rights Agreement entered into between the Company and the selling shareholder, we have agreed to register the shares purchased by the selling shareholder for resale under the Act through October 17, 2009. The 283,759 shares purchased by the selling shareholder are covered by this prospectus.

In connection with the above October 17, 2007 private placement offering, William Blair & Company, LLC, acted as exclusive placement agent. As compensation for its services, Blair received cash compensation of $945,000 and warrants to purchase up to 17,532 shares at $7.70 per share at any time through October 17, 2012. Blair also received an expense reimbursement from us of $7,418.44.

BUSINESS

OVERVIEW

USA Technologies, Inc. (the "Company", "We" or "Our") was incorporated in the Commonwealth of Pennsylvania in January 1992. The Company is a leading supplier of cashless, remote management, reporting and energy management solutions serving the unattended Point of Sale market. Our networked devices and associated services enable the owners and operators of everyday, stand-alone, distributed assets, such as vending machines, kiosks, personal computers, photocopiers, and laundry equipment, the ability to remotely monitor, control and report on the results of these distributed assets, as well as the ability to offer their customers cashless payment options. As a result of the acquisition of the assets of Bayview Technology Group, LLC ("Bayview") in July 2003, our Company also manufactures and sells energy management products which reduce the electrical power consumption of equipment, such as refrigerated vending machines and glass front coolers, thus reducing the electrical energy costs associated with operating this equipment.

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

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As of March 31, 2008, the Company had approximately 31,000 devices connected to its USALive® network. During the quarter ended March 31, 2008, the Company processed approximately 3.2 million transactions totaling approximately $9.0 million.

OUR TECHNOLOGY-BASED SOLUTION

Our Company offers the e-Port Connect™ end-to-end solution for turnkey cashless payment processing, remote management, and on-line reporting for distributed assets such as vending machines, kiosks, office equipment, and laundry machines. The e-Port Connect™ solution consists of a device or software in the distributed asset (the “Client”), a connectivity medium, and our proprietary USALive® network, all coupled with first-class technology support and customer service.

The Client

As part of the end-to-end solution, the Company offers its customers several different Clients to connect their distributed assets. These range from software to hardware devices consisting of control boards, magnetic strip card readers, and RFID readers. The Client can be embedded inside the host equipment, such as software residing in the central processing unit of a Kiosk or Business Center computer; it can be integrated as part of the host equipment, such as our e-Port® hardware that can be attached to the door of a vending machine; or it can be a peripheral, stand-alone terminal, such as our TransAct® terminal for Copier Express®.

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

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

The Connectivity Mediums

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

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

The Network

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

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

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

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OUR PRODUCTS AND SERVICES

Intelligent Vending®

Developed for the vending industry, Intelligent Vending® is our e-Port Connect™ solution for the vending industry. This solution bundles the e-Port® Client, the USALive® network, and our first class technology support and customer service. Our latest improvement to Intelligent Vending® is the introduction of our e-Port® G-6. This hardware includes a radio frequency identification (“RFID”) or “Tap & Go™” tag reader for added convenience to consumers.

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

e-Suds™

eSuds™ is our e-Port Connect™ solution developed for the commercial laundry industry. The eSuds™ solution bundles the e-Port® Client and the USALive® network, and our first class technology support and customer service. eSuds™ offers an e-mail alert system to notify users regarding machine availability, cycle completion, and other events and supports a variety of value-added services such as custom advertising or subscription-based payments.

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

Business Express®

Business Express® is our e-Port Connect™ solution comprised of our software Client, the USALive® network and a suite of office equipment (i.e. PC, fax and copier), all coupled with our first class technology support and customer service. Business Express® enables hoteliers and others to offer unmanned business services 24/7/365. The Company also provides additional value-added service and revenue generating opportunities with BEXPrint™, our proprietary technology that allows users, without access to a printer, to send a document to a secure web-site for storage, and then password retrieval of the document for printing at our business center locations, and our Kinko's relationship, which gives our Business Center users access to the nearest, convenient Kinko's center for their more advanced business center needs.

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

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

Kiosk

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

Energy Management Products

With the acquisition of Bayview in July 2003, our Company offers energy conservation products ("Misers") that reduce the electrical power consumption of various types of existing equipment, such as vending machines, glass front coolers and other "always-on" appliances by allowing the equipment to selectively operate in a power saving mode when the full power mode is not necessary. Each of the Company's Miser products utilizes occupancy sensing technology to determine when the surrounding area is vacant or occupied. The Miser then utilizes occupancy data, room and product temperatures, and an energy saving algorithm to selectively control certain high-energy components (e.g. compressor and fan) to realize electrical power savings over the long-term use of the equipment. Customers of our VendingMiser® product benefit from reduced energy consumption and costs of up to 46% per machine, depending on regional energy costs, machine type, and utilization of the machine. Our Misers also reduce the overall stress loads on the equipment, helping to reduce associated maintenance costs.

The Miser family of energy-control devices include:

VendingMiser® - installs in a cold drink vending machine and can reduce the electrical power consumption of the vending machine by an average of up to 46%.

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

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VM2IQ™ and CM2IQ™ - The second generation of the VendingMiser™ and CoolerMiser™ devices that is installed directl inside the machine and has the capability to control the cooling system and the advertising lights separately.

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

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

THE OPPORTUNITY

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

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

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

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

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

THE INDUSTRY

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

Vending

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

Commercial Laundry

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

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Business Centers

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

Kiosk

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

SALES AND MARKETING

The Company's sales strategy includes both direct sales and channel development, depending on the particular dynamics of each of our markets. Our marketing strategy is diversified and includes media relations, direct mail, conferences and client referrals. As of March 31, 2008, the Company was marketing and selling its products through its full time staff consisting of 12 people.

Direct Sales

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

Within the vending industry, our customers include soft drink bottlers and independent vending operators throughout the United States. On the soft drink bottler side, heavy effort is being put into securing initial distribution agreements. Three of the premier national independent vending operators, the Compass Group (Canteen, Flik, Eurest, Restaurant Associates and other affiliates), ARAMARK and Sodexho, have installed approximately 1,120 e-Port® Client devices.

Channel Sales

We currently engage in channel sales for our TransAct™ and Business Express® products. We also work with audio-visual companies that service major hotels.

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Marketing

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

STRATEGIC RELATIONSHIPS

MasterCard International

In June 2006, MasterCard International and the Company signed an agreement to deploy 1,000 e-Port devices that accept MasterCard “PayPass™” in Coca-Cola vending machines owned and operated by the Philadelphia Coca-Cola Bottling Company. From July 2006 through June 30, 2007, the Company has earned approximately $400,000 from this agreement, and all of the units were installed.

In November 2006, MasterCard International and the Company signed an agreement to deploy 5,000 e-Port devices that accept MasterCard “PayPass™”. As of June 30, 2007, the Company had earned approximately $1,975,000 from this agreement, and all of the units were installed.

In May 2007, MasterCard International, the Company, and Coca-Cola Enterprises, Inc. entered into an agreement to deploy 7,500 e-Port devices, all as more fully described below. As of October 31, 2007, the Company had earned approximately $3,248,000 from this agreement.

On November 16, 2007, the Company and MasterCard International Incorporated entered into an additional MasterCard PayPass Agreement as part of MasterCard’s PayPass seeding initiative. The agreement provides that USA shall use its best efforts to secure the installation of an additional 4,051 G-6 e-Ports that accept credit cards utilizing MasterCard’s PayPass contactless technology. The e-Ports are anticipated to be installed in beverage vending machines of USA customers located in multiple cities throughout the United States. For each e-Port successfully installed, the Company would receive $395 from Mastercard in full payment for the e-Port. As of March 31, 2008, all of the units had been installed.

AT&T Mobility (formerly Cingular Wireless and AT&T Wireless)

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

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Coca-Cola Enterprises, Inc.

In May 2007, we entered into a three year Supply and Licensing Agreement with Coca-Cola Enterprises, Inc. ("CCE"), the world's largest marketer, producer and distributor of Coca-Cola products. The Agreement covers the purchase by CCE from us of our G6 e-Port® and related e-Port Connect™ services for use in CCE's beverage vending machines, including the purchase of e-Ports® by CCE under the MasterCard agreement referred to below. The price of each e-Port is $433. We would also receive 5% of the cashless revenues from the CCE vending machine as a processing fee and a monthly payment of $9.95 per unit if we would act as the transaction processor for the CCE vending machine.

The Agreement also includes as an exhibit the MasterCard PayPass Participation Agreement entered into between us, CCE, and MasterCard International Incorporated under which CCE had agreed to use commercially reasonable efforts to complete installation of up to 7,500 e-Ports by August 31, 2007. By amendment executed by the parties to the Agreement, the installation completion date was changed to October 31, 2007. In addition to accepting credit and debit cards, these e-Ports accept payment from credit cards utilizing MasterCard's PayPass contactless technology. The e-Ports would be utilized in CCE beverage vending machines in multiple cities throughout the United States. For each e-Port successfully installed by CCE, we will receive an aggregate of $433 from CCE and MasterCard. As of October 31, 2007, a total of approximately 7,000 units have been installed by CCE, and as of December 31, 2007, all of the units have been installed by CCE.

MANUFACTURING

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

COMPETITION

The cashless vending, remote business service and energy conservation industries are each highly competitive markets. While the Company offers unique products and services within smaller niche markets of these industries, a number of competitors in the broader market may offer products and services within our niche market in the future. In the cashless vending market, we are aware of one direct competitor, Transaction Network Services, Inc. In the cashless laundry market, we are aware of one direct competitor, Mac-Gray Corporation. In the automated business center market, we are aware of three direct competitors. In the energy management market, we are not aware of any direct competitors for our Miser products.

The businesses which have developed unattended, credit card activated control systems currently in use in non-vending machine applications (e.g., gasoline dispensing, public telephones, prepaid telephone cards and ticket dispensing machines), might be capable of developing products or utilizing their existing products in direct competition with our e-port control systems targeted to the vending industry. 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. Finally, the production of highly efficient vending machines and glass front coolers or alternative energy conservation products may reduce or replace the need for our energy management products.

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The Company’s key competitive factors include our unique products, our integrated services, product performance and price. Our competitors 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 increase in competition in the future may result in reduced sales and/or lower percentages of gross revenues being retained by the Company in connection with its licensing arrangements, or otherwise may reduce potential profits or result in a loss of some or all of its customer base.

CUSTOMER CONCENTRATIONS

Approximately 41% and 39% of the Company's accounts and finance receivables at June 30, 2007 and 2006, respectively, were concentrated with two customers each year. Approximately 40%, 29% and 11% of the Company's revenues for the year ended June 30, 2007, 2006 and 2005, respectively, were concentrated with one, two (19% with one customer and 10% with another customer), and one customer(s), respectively. Approximately 56% (40% with one customer and 16% with another customer) and 50% (43% with one customer and 7% with another customer) of the Company’s revenues for the nine months ended March 31, 2008 and 2007, respectively, were concentrated with two customers. The Company's customers are principally located in the United States.

TRADEMARKS, PROPRIETARY INFORMATION AND PATENTS

The Company received federal registration approval of the following trademarks: Business Express, Express Solutions, C3X, TransAct, Public PC, PC Express, Copy Express, Credit Card Copy Express, Credit Card Computer Express, Credit Card Printer Express, Credit Card Microfiche Express, Credit Card Debit Express, The Office That Never Sleeps, Intelligent Vending, e-Port, Dial-A-Vend, Dial-A-Snack, Dial-A-Vend.com, USALive® and e-Port The Next Generation in Vending. The Company has two trademarks pending registration, VM2IQ and CM2IQ. Through its wholly owned subsidiary, Stitch Networks, the Company has secured three registered trademarks, including eVend.net, eSuds.net, and Stitch Networks, and one trademark, E-ppliance, which is pending registration. In addition, due to the July 2003 acquisition of Bayview, the Company has secured the VendingMiser trademark and the trademark SnackMiser is pending federal registration.

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

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Through May 31, 2008, 64 United States patents and 5 Foreign patents have been issued to the Company, 18 United States patents and 8 Foreign patents are pending.

The list of issued patents is as follows:

o U.S. Patent No. 5,619,024 entitled "Credit Card and Bank Issued Debit Card Operating System and Method for Controlling and Monitoring Access of Computer and Copy Equipment"; o U.S. Patent No. 5,637,845 entitled "Credit and Bank Issued Debit Card Operating System and Method for Controlling a Prepaid Card Encoding/Dispensing Machine";

o U.S. Patent No. D423,474 entitled "Dataport";

o U.S. Patent No. D415,742 entitled "Laptop Dataport Enclosure";

o U.S. Patent No. D418,878 entitled "Sign Holder";

o U.S. Patent No. 6,056,194 entitled "System and Method for Networking and Controlling Vending Machines";

o U.S. Patent No. D428,047 entitled "Electronic Commerce Terminal Enclosure";

o U.S. Patent No. D428,444 entitled "Electronic Commerce Terminal Enclosure for a Vending Machine";

o U.S. Patent No. 6,119,934 entitled "Credit Card, Smart Card and Bank Issued Debit Card Operated System and Method for Processing Electronic Transactions";

o U.S. Patent No. 6,152,365 entitled "Credit and Bank Issued Debit Card Operated System and Method for Controlling a Vending Machine";

o U.S. Patent No. D437,890 entitled "Electronic Commerce Terminal Enclosure with a Hooked Fastening Edge for a Vending Machine";

o U.S. Patent No. D441,401 entitled "Electronic Commerce Terminal Enclosure with Brackets";

o U.S. Patent No. 6,321,985 entitled "System and Method for Networking and Controlling Vending Machines";

o U.S. Patent No. 6,505,095 entitled "System for Providing Remote Audit, Cashless Payment, and Interactive Transaction Capabilities in a Vending Machine" (Stitch);

o U.S. Patent No. 6,389,337 entitled "Transacting e-commerce and Conducting e-business Related to Identifying and Procuring Automotive Service and Vehicle Replacement Parts" (Stitch);

o U.S. Patent No. 6,021,626 entitled "Forming, Packaging, Storing, Displaying and Selling Clothing Articles";

o U.S Patent No. 6,622,124 entitled "Method of transacting an electronic mail, an electronic commerce, and an electronic business transaction by an electronic commerce terminal operated on a transportation vehicle";

o U.S. Patent No. 6,615,186 entitled "Communicating interactive digital content between vehicles and internet based data processing resources for the purpose of transacting e-commerce or conducting e-business";

o U.S. Patent No. 6,615,183 entitled "Method of warehousing user data entered at an electronic commerce terminal";

o U.S. Patent No. 6,611,810 entitled "Store display window connected to an electronic commerce terminal";

o U.S. Patent No. 6,609,103 entitled "Electronic commerce terminal for facilitating incentive-based purchasing on transportation vehicles";

o U.S. Patent No. 6,609,102 entitled "Universal interactive advertising and payment system for public access electronic commerce and business related products and services";

o U.S. Patent No. D478,577 entitled "Transceiver base unit";

o U.S. Patent No. 6,606,605 entitled "Method to obtain customer specific data for public access electronic commerce services";

o U.S. Patent No. 6,606,602 entitled "Vending machine control system having access to the internet for the purposes of transacting e-mail, e-commerce, and e-business, and for conducting vending transactions";

o U.S. Patent No. 6,604,087 entitled "Vending access to the internet, business application software, e-commerce, and e-business in a hotel room";

o U.S. Patent No. 6,604,086 entitled "Electronic commerce terminal connected to a vending machine operable as a telephone";

o U.S. Patent No. 6,604,085 entitled "Universal interactive advertising and payment system network for public access electronic commerce and business related products and services";

o U.S. Patent No. 6,601,040 entitled "Electronic commerce terminal for wirelessly communicating to a plurality of communication devices";

o U.S. Patent No. 6,601,039 entitled "Gas pump control system having access to the Internet for the purposes of transacting e-mail, e-commerce, and e-business, and for conducting vending transactions";

o U.S. Patent No. 6,601,038 entitled "Delivery of goods and services resultant from an electronic commerce transaction by way of a pack and ship type company";

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- o U.S. Patent No. 6,601,037 entitled "System and method of processing credit card, e-commerce, and e-business transactions without the merchant incurring transaction processing fees or charges worldwide";
- o U.S. Patent No. D477,030 entitled "Vending machine cashless payment terminal";
- o U.S. Patent No. D476,037 entitled "User interface bracket for a point of sale terminal";
- o U.S. Patent No. D476,036 entitled "Printer bracket for point of sale terminal";
- o U.S. Patent No. D475,751 entitled "User interface bracket for a point of sale terminal";
- o U.S. Patent No. D475,750 entitled "Paper guide for a point of sale terminal";
- o U.S. Patent No. D475,414 entitled "Printer bracket for point of sale terminal";
- o U.S. Patent No. 5,844,808 entitled "Apparatus and methods for monitoring and communicating with a plurality of networked vending machines";
- o U.S. Patent No. 6,581,396 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode";
- o U.S. Patent No. 6,389,822 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode";
- o U.S. Patent No. 6,243,626 entitled "External power management device with current monitoring precluding shutdown during high current"; and
- o U.S. Patent No. 5,477,476 entitled "Power conservation system for computer peripherals";
- o U.S. Patent No. 6,629,080 entitled "Transaction processing method of fulfilling an electronic commerce transaction by an electronic commerce terminal system";
- o U.S. Patent No. D480,948 entitled "Mounting bracket for mounting a cashless payment terminal to a vending machine";
- o U.S. Patent No. 6,643,623 entitled "A method of transacting an electronic mail, an electronic commerce, and an electronic business transaction by an electronic commerce terminal using a gas pump";
- o U.S. Patent No. 6,684,197 entitled "Method of revaluing a private label card using an electronic commerce terminal (as amended)";
- o U.S. Patent No. 6,754,641 entitled "Dynamic identification interchange method for exchanging one form of identification for another";
- o U.S. Patent No. 6,763,336 entitled "Method of transacting an e-mail, an e-commerce, and an e-business transaction by an electronic commerce terminal using a wirelessly networked plurality of portable devices";

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o U.S. Patent No. 6,801,836 entitled "Power-conservation based on indoor/outdoor and ambient-light determinations";

o U.S. Patent No. 6,807,532 entitled "Method of soliciting a user to input survey data at an electronic commerce terminal";

o U.S. Patent No. 6,853,894 entitled "Global network based vehicle safety and security telematics";

o U.S. Patent No. 6,856,820 entitled "An in-vehicle device for wirelessly connecting a vehicle to the internet and for transacting e-commerce and e-business";

o U.S. Patent No. 6,895,310 entitled "Vehicle related wireless scientific instrumentation telematics";

o U.S. Patent No. 6,898,942 entitled "Method and apparatus for conserving power consumed by a refrigerated appliance";

o U.S. Patent No. 6,931,869 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode";

o U.S. Patent No. 6,975,926 entitled "Method and apparatus for power management control of a compressor-based appliance that reduces electrical power consumption on an appliance";

o U.S. Patent No. 7,003,289 entitled "Communication interface device for managing wireless data transmission between a vehicle and the internet";

o U.S. Patent No. 7,076,329 entitled "Cashless vending transaction management by a Vend Assist mode of operation";

o U.S. Patent No. 7,089,209 entitled "Method for revaluing a phone card";

o U.S. Patent No. 7,131,575 entitled "MDB transaction string effectuated cashless vending";

o U.S. Patent No. 7,200,467 entitled “Method and Apparatus for Power Management Control of a Compressor-Based Appliance that Reduces Electrical Power Consumption of an Appliance”;

o U.S. Design Patent No. D543,588 entitled “Point of Sale Terminal Mountable on a Vending Machine’;

o U.S. Patent No. 7,286,907 entitled “Method and Apparatus for Conserving Power Consumed by a Refrigerated Appliance Utilizing Audio Signal Detection”;

o Canadian Patent No. D199-1014 entitled "Sign holder";

o Canadian Patent No. D199-1038 entitled "Laptop data port enclosure";

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- o Canadian Patent No. 2,291,015 entitled "Universal interactive advertising and payment system for public access electronic commerce and business related products and services";

- o Australian Patent No. 2001263356 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode"; and

- o Mexican Patent No. 234363 entitled "Refrigerated vending machine exploiting expanded temperature variance during power-conservation mode".

The Company believes that one or more of its patents, including the U.S. patent No. 6,505,095 entitled "System for providing remote audit, cashless payment, and interactive transaction capabilities in a vending machine", are important in protecting its intellectual property used in its e-Port® control system targeted to the vending industry. The aforesaid patent expires in July 2021. Reference is hereby made to our risk factors relating to our intellectual property.

The Company has filed for the reexamination of U.S. Patent No. 7,131,575 (reexamination control no. 90/008,437) and for the reexamination of U.S. Patent No. 6,505,095 (reexamination control no. 90/008,448).

RESEARCH AND DEVELOPMENT

Research and development expenses, which are included in general and administrative and compensation expense in the Consolidated Statements of Operations, were approximately $1,355,000, $974,000, and $1,364,000 for the years ended June 30, 2007, 2006 and 2005, respectively, and $405,000 (unaudited) and $992,000 (unaudited) for the nine months ended March 31, 2008 and 2007, respectively.

EMPLOYEES

On March 31, 2008, the Company had 69 full-time employees and 2 part-time employees.

PROPERTY

The Company conducts its operations from various facilities under operating leases. In March 2003, the Company entered into a lease for 12,864 square feet of space located in Malvern, Pennsylvania for its principal executive office and used for general administrative functions, sales activities, and product development. The lease term extends through December 31, 2008 and provides for escalating rent payments and a period of free rent prior to the commencement of the monthly lease payment in January 2004 of approximately $25,000 per month. During April 2005, the Company entered into an amendment to the lease covering 4,385 additional square feet that is contiguous to its existing space. The lease term was extended to December 31, 2010, and the amendment provides for a period of free rent for the additional space with rent of approximately $31,000 per month commencing in September 2005 with escalating rental payments thereafter.

The Company also leases 9,084 square feet of space, located in Malvern, Pennsylvania, on a month-to-month basis for a monthly payment of approximately $8,000. During January 2007, the Company entered into an amendment to the lease covering 4,293 additional square feet that is contiguous to its existing space. The lease term was extended to December 31, 2010, and the amendment provides for a rent of $13,377 per month with escalating rental payments through the remainder of the lease. During prior years, the facility was solely used to warehouse product. All product warehousing, shipping and customer support was transferred to this location from the executive office location during the first quarter of fiscal year 2005.

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In December 2004, the Company entered into a lease for 2,837 square feet of space located in Denver, Colorado, to be used for administrative functions, sales activities and product warehousing associated with our energy management products. The lease term extends through May 31, 2009 and provides for five months of free rent followed by rent payments of $1,200 per month and escalating payments beginning on June 1, 2006. The lease provides for additional rent for a prorated share of operating costs for the entire facility.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

Our Directors and executive officers, on March 31, 2008, together with their ages and business backgrounds were as follows:

Name	Age	Position(s) Held
George R. Jensen, Jr.	58	Chief Executive Officer, Chairman Of the Board of Directors
Stephen P. Herbert	44	Chief Operating Officer and President, Director
David M. DeMedio	36	Chief Financial Officer
William L. Van Alen, Jr. (1)(2)	74	Director
Steven Katz (1)	59	Director
Douglas M. Lurio	51	Director
Joel Brooks (2)	49	Director
Stephen W. McHugh (2)	51	Director

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

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

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

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Stephen P. Herbert was elected a Director in April 1996, and joined USA on a full-time basis on May 6, 1996. Prior to joining us and since 1986, Mr. Herbert had been employed by Pepsi-Cola, the beverage division of PepsiCo, Inc. From 1994 to April 1996, Mr. Herbert was a Manager of Market Strategy. In such position he was responsible for directing development of market strategy for the vending channel and subsequently the supermarket channel for Pepsi-Cola in North America. Prior thereto, Mr. Herbert held various sales and management positions with Pepsi-Cola. Mr. Herbert graduated with a Bachelor of Science degree from Louisiana State University.

David M. DeMedio joined USA Technologies on a full-time basis in March 1999 as Controller. In the Summer of 2001, Mr. DeMedio was promoted to Director of Financial Services where he was responsible for the sales and financial data reporting to customers, the Company's turnkey banking services and maintaining and developing relationships with credit card processors and card associations. In July 2003, Mr. DeMedio served as interim Chief Financial Officer through April, 2004. From April, 2004 until April 12, 2005, Mr. DeMedio served as Vice President - Financial & Data Services. On April 12, 2005, he was appointed as the Company's Chief Financial Officer. From 1996 to March 1999, prior to joining the Company, Mr. DeMedio had been employed by Elko, Fischer, Cunnane and Associates, LLC as a supervisor in its' accounting and auditing and consulting practice. Prior thereto, Mr. DeMedio held various accounting positions with Intelligent Electronics, Inc., a multi-billion reseller of computer hardware and configuration services. Mr. DeMedio graduated with a Bachelor of Science in Business Administration from Shippensburg University and is a Certified Public Accountant.

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 and until March 2006, Mr. Van Alen had 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. Mr. Katz is also a Director of Health Systems Solutions Inc., NaturalNano, Inc. and Gammacan International, Inc., all publicly traded companies.

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

Stephen W. McHugh joined the Board of Directors of USA in June 2006. Mr. McHugh was appointed by the Board to fill the vacancy on the Board caused by the death of William W. Sellers. Mr. McHugh is the President and co-founder of Santa Barbara Infrared, Inc., a designer and manufacturer of military and commercial Electro-Optical test equipment that was recently acquired by HEICO Corporation. Mr. McHugh formerly was a mechanical engineer and technical sales expert at Electro Optical Industries where he designed optical and mechanical instruments for the test of infrared camera systems.

Joel Brooks joined the Board of Directors of USA on March 22, 2007. Mr. Brooks was appointed by the Board to fill the vacancy on the Board caused by the resignation of Albert Passner. Since December 2000, Mr. Brooks has served as the Chief Financial Officer and Treasurer of Senesco Technologies, Inc., a biotechnology company whose shares are traded on the American Stock Exchange. From September 1998 until November 2000, Mr. Brooks was the Chief Financial Officer of Blades Board and Skate, LLC, a retail establishment specializing in the action sports industry. Mr. Brooks was Chief Financial Officer from 1997 until 1998 and Controller from 1994 until 1997 of Cable and Company Worldwide, Inc. He also held the position of Controller at USA Detergents, Inc. from 1992 until 1994, and held various positions at several public accounting firms from 1983 through 1992. Mr. Brooks received his Bachelor of Science degree in Commerce with a major in Accounting from Rider University in February 1983.

COMPENSATION DISCUSSION AND ANALYSIS

Our Compensation Committee is currently comprised of two non-employee directors. The Compensation Committee is responsible for reviewing and recommending compensation and compensation changes for the executive officers of the Company. The compensation of the two other employees named in the Summary Compensation Table is determined by the executive officers. The Chief Executive Officer assists the Committee in determining the compensation of all other executive officers and the other executive officers do not have a role in determining their own compensation. Our Chief Executive Officer regularly provides information to the Compensation Committee. The Compensation Committee considers each component of executive compensation in light of total compensation. In considering adjustments to the total compensation of the executive officers, the Compensation Committee also considers the value of previous compensation.

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We have developed a compensation policy that is designed to attract and retain key executives responsible for our success and motivate management to enhance long-term shareholder value. The Compensation Committee believes that compensation of the Company's executive officers should encourage creation of shareholder value and achievement of strategic corporate objectives and the Committee seeks to align the interests of the Company's shareholders and management by integrating compensation with the Company's annual and long-term corporate and financial objectives. We believe that providing our executive officers who have responsibility for the Company's management and growth with an opportunity to increase their ownership of Company stock aligns the interests of the executive officers with those of the shareholders. During the 2007 fiscal year, we adopted the Long Term Equity Incentive Program for our executive officers in order to provide them with the opportunity to further increase the number of shares owned by them. In order to be competitive with compensation offered by other technology companies and to motivate and retain executive officers, the Company intends to offer a total compensation package competitive with other technology companies as well as take into account individual responsibilities and performance. The annual compensation package for our executives primarily consists of:

- a base salary
- stock options
- long-term stock incentive awards
- cash and stock bonuses
- restricted stock awards
- other benefits

Base Salary

Base salary is the fixed component of our executive's annual cash compensation and is set with the goal of attracting talented executives and adequately compensating and rewarding them for services rendered during the fiscal year. For fiscal 2007, our executive officers had employment agreements that specified the level of salary to which the officer is entitled, subject to review of our Board or Compensation Committee from time to time. These base salaries were established in April 2006, and reflected the individual's level of responsibility and performance. In recommending base salaries to the Board, the Compensation Committee also considers changes in duties and responsibilities, our business and financial results, the relationship among base salaries paid to others within our Company, and its knowledge of base salaries paid to executive officers of other technology companies. As permitted under his employment agreement, Mr. Jensen elected to receive fifty-percent (50%) of his base salary in shares of Common Stock rather than cash payments during the 2007 fiscal year. The base salaries for each of Messrs. Sagady and McLaughlin for the fiscal year were established by our President after discussions with each employee.

Stock Options

Stock options serve to ensure that executive management is properly focused on shareholder value. Stock options align management incentives with shareholder's objectives because options have value only if the stock price increases over time. A vesting schedule also keeps the executives focused on long term performance and not short term gains. For fiscal 2007, various stock options became vested that were granted to our executive officers at the time the officers entered into their employment agreements in May 2006. During the fiscal year, the Company granted to our executive officers piggy back registration rights in connection with the shares underlying the options granted to them in their employment agreements.

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Restricted Stock Awards

During fiscal 2007, shares of restricted stock became vested that had been issued to Messrs. Jensen and Herbert at the time they entered into their May 2006 employment agreements. During the fiscal year, the Company granted to our executive officers piggy back registration rights in connection with the restricted shares granted to them in their employment agreements.

Cash and Stock Bonuses

In addition to base salary, we may award variable cash bonus awards to our executives as well as shares available under our stock compensation programs. The shares awarded under our stock compensation plans are registered under the Securities Act of 1933, as amended. Shares were awarded under our stock plans to each of Messrs. Sagady and McLaughlin during the fiscal year. The shares were awarded to them upon the recommendation of our President. In addition, based upon performance, Messrs. Sagady and McLaughlin earned cash bonuses.

Long-Term Equity Incentive Program

During February 2007, at the recommendation of the Compensation Committee, the Board of Directors adopted the Long-Term Equity Incentive Program covering the Company's executive officers – Messrs. Jensen, Herbert and DeMedio. The purpose of the Plan is to ensure continuity of the Company's executives, encourage stock ownership by the executives, align the interests of the executives with those of the shareholders, and provide incentives and rewards to the executives who are largely responsible for the management and growth of the Company.

Under the Plan, each executive officer will be awarded common stock of the Company in the event the Company achieves target goals relating to each of revenues, gross profit and EBITDA during each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009. EBITDA is defined as earnings before interest, taxes, depreciation, and amortization, and excludes non-cash stock payments/awards and stock options granted to officers and Board members. During each such fiscal year, the number of eligible shares to be awarded to the executive is based upon the following weightings: 40% of eligible shares are determined by revenues; 30% of eligible shares are determined by gross profit; and 30% of eligible shares are determined by EBITDA.

If the target goals (100%) for revenues, gross profit, and EBITDA are achieved by the Company during the applicable fiscal year, the executive officers would be awarded the following number of shares:

	Fiscal Year Ended June 30,		
	2007	2008	2009
George R. Jensen, Jr.	178,570	178,570	178,570
Stephen P. Herbert	53,713	53,713	53,714
David M. DeMedio	21,663	21,663	21,664

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If actual revenues, gross profit, or EBITDA for a particular fiscal year exceed the target goals, each executive would be awarded additional eligible shares, up to an amount no greater than 125% of the number of eligible shares. If the actual revenues, gross profit, or EBITDA for a particular fiscal year are less than the target goals, each executive would be awarded a lesser pro rata portion of the number of eligible shares. If minimum target goals for revenues, gross profit, or EBITDA for a particular fiscal year are not achieved, no eligible shares will be awarded to each executive. Up to 952,298 shares of common stock are reserved for issuance under the Plan.

Based upon the financial results of the Company for the fiscal year ended June 30, 2007, the target goal (100%) relating to revenues was met and the minimum target goals relating to gross profit and EBITDA were not met. Substantially all of the e-Port units sold during the fiscal year consisted of units pertaining to the MasterCard PayPass seeding program with substantially reduced selling prices resulting in reduced gross profit and EBITDA.

Management's goal was to have the maximum number of units deployed in the field as quickly as possible. The Compensation Committee agreed with management that given the current stage of the Company's business, it was more beneficial to the Company to maximize the number of e-Ports in the field as soon as possible.

During September 2007, the Board of Directors approved the recommendation of the Compensation Committee that the selling price of all the e-Ports sold during the fiscal year be "normalized" to the current retail price. This normalization resulted in increased pro forma revenues, gross profit and EBITDA for the e-Port units sold in the MasterCard PayPass seeding program. The Board of Directors also approved the recommendation of the Compensation Committee that the executive officers be given the option to elect to satisfy certain minimum tax withholding obligations for the restricted stock bonuses previously awarded and issued to the executives under their employment agreements by reducing the number of shares otherwise issuable to them under the Plan.

As a result of the normalization, a higher than target revenue hurdle was met (110%), and lower than target hurdles for each of gross profit (85%) and EBITDA (85%) were also met, resulting in the vesting of a total of 241,249 shares under the Plan for the fiscal year rather than a total of 101,578 shares prior to the normalization. During September 2007, the Company issued 225,249 of such shares to the executives, and at the executives' request, 16,000 shares were exchanged by the executives and cancelled by the Company to settle tax withholding obligations incurred in connection with the restricted stock bonuses previously awarded and issued to the executives under their employment agreements. The specific allocation of the 225,249 shares among the executive officers is as follows: Mr. Jensen - 160,041 shares; Mr. Herbert - 44,628 shares; and Mr. DeMedio - 20,580 shares. In October 2007, the Company granted to the executives, standard piggyback registration rights in connection with these shares for a period of five years after vesting.

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The Plan also permits the executives to satisfy any income tax withholding obligations attributable to the shares that become vested under the Plan by electing to reduce the number of shares otherwise issuable to them under the Plan. The payment of the withholding taxes attributable to the vested shares must be made by the Company no later than December 30, 2007, and therefore, any such election by the executives to cancel shares must be made by such date. The executives did not elect to cancel any additional shares on or before December 31, 2007.

It is difficult for management to fully predict our unit sales for e-Ports for the 2008 fiscal year. If the MasterCard seeding program would continue for the majority of the 2008 fiscal year, management believes that it is likely that the Company would not meet the target (100%) goals established under the Plan for the 2008 fiscal year relating to gross profit and EBITDA but would meet the target (100%) goal established under the Plan for the 2008 fiscal year relating to revenue.

Other Benefits

Our health care, insurance and other employee benefits are substantially the same for all our employees, including our executive officers. We do maintain an automobile allowance program for each of our executive officers.

Impact of Taxation and Accounting Considerations on Executive Compensation

The Compensation Committee and the Board take into account tax and accounting consequences of the compensation program and weigh these factors when setting total compensation and determining the individual elements of any executive officer’s compensation package.

As a result of the normalization discussed above, certain target hurdles were met resulting in the vesting of a total of 241,249 shares under the Plan for the fiscal year rather than a total of 101,578 shares prior to the normalization. Also, the value of the number of shares the executives may apply to tax withholding was in excess of the minimum statutory obligation and, as a result, the Plan is classified as a liability award rather than an equity award. As such, the Company reclassified the $599,311 related to the 101,578 shares that was previously recorded in Common Stock to a short-term share-based payment liability. As the price of the Company’s shares was $8.45 on the date of the approval of the normalization, a charge of $1,180,220 was also recorded to compensation expense, related to the additional 139,671 additional shares, with a corresponding amount to the short-term share-based payment liability for a total share-based payment liability of $1,779,531 as of September 21, 2007. On September 28, 2007, as the Company’s share price was $8.38, the total share-based payment liability related to fiscal year 2007 was $1,769,754 ($599,311 compensation expense in fiscal year 2007 and $1,170,443 in the three months ended September 30, 2007). Of the 241,249 shares vested for fiscal year 2007, the Company issued 225,249 shares of Common Stock and the remaining 16,000 shares were exchanged by the executives and cancelled by the Company to settle tax withholding obligations paid by the Company totaling $134,080 in connection with the restricted stock bonuses previously awarded and issued to them under their employment agreements. As a result of the fact that a portion of the remaining 225,249 shares are subject to cancellation as discussed above, the Company has recorded the entire fair value of these remaining shares as a short-term share-based payment liability as of September 30, 2007 totaling $1,635,674. The Company will continue to re-measure this share-based liability until final settlement with changes in the fair value being charged to compensation expense. Final settlement will occur upon the exercise or lapse of the cancellation provision on December 30, 2007 and the fair value of the remaining shares will be charged to Common Stock. The executives did not elect to cancel any additional shares, and this provision lapsed on December 31, 2007.

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In conjunction with the Plan award for fiscal year 2008, the Company recorded compensation expense of $320,988 and a corresponding amount to the short-term accrued shared-based payment liability for the three month period ended September 30, 2007. This amount was based on management's estimate of the probability of meeting the target goals and the fair value of the Company's stock of $8.38 at the end of the reporting period, September 28, 2007. Management will update this estimate and re-measure the short-term share-based payment liability at the end of each reporting period until settlement. The final measurement and charge to compensation expense will be determined on the date of settlement.

The charge for the additional 139,671 shares issued to our executives under the plan as a result of the normalization is not reflected in the compensation tables presented below and will be reflected in the compensation tables presented in connection with the 2008 fiscal year.

SUMMARY COMPENSATION TABLE

The following table sets forth certain information with respect to compensation paid or accrued by the Company during the fiscal years ended June 30, 2005, June 30, 2006 and June 30, 2007 to each of the executive officers and employees of the Company named below:

Name and Prinicpal Position (a)	Fiscal Year (b)	Salary ($) (4) (c)	Bonus ($) (5) (d)	Stock Awards ($) (6) (e)	Option Awards ($) (7) (f)	Non-Equity Incentive Plan Compensation ($) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (h)	All Other Compensation ($) (8) (i)	Total ($) (j)
George R. Jensen, Jr.,	2007	$ 325,000	$ -	$ 821,424	$ 137,750	$ -	$ -	$ 17,875	$ 1,302,049
Chief Executive Officer &	2006	$ 270,288	$ -	$ 200,000	$ 137,750	$ -	$ -	$ 18,563	$ 626,601
Chairman of the Board	2005	$ 250,000	$ -	$ -	$ -	$ -	$ -	$ 17,875	$ 267,875
Stephen P. Herbert,	2007	$ 285,000	$ -	$ 393,426	$ 33,060	$ -	$ -	$ 17,875	$ 729,361
Chief Operating Officer &	2006	$ 246,673	$ -	$ 133,336	$ 33,060	$ -	$ -	$ 18,563	$ 431,632
President	2005	$ 231,923	$ -	$ -	$ -	$ -	$ -	$ 17,875	$ 249,798
David M. DeMedio (1),	2007	$ 165,000	$ -	$ 51,124	$ 26,355	$ -	$ -	$ 17,875	$ 260,354
Chief Financial Officer	2006	$ 162,385	$ -	$ -	$ 26,360	$ -	$ -	$ 20,112	$ 208,857
	2005	$ 131,689	$ 11,000	$ -	$ -	$ -	$ -	$ 7,800	$ 150,489
John McLaughlin (2), Vice President of Sales	2007	$ 132,028	$ 46,629	$ 18,821	$ -	$ -	$ -	$ 8,450	$ 205,928
Cary Sagady (3), Vice President, Research & Development	2007	$ 125,400	$ 25,000	$ 27,675	$ -	$ -	$ -	$ 7,800	$ 185,875

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(1) Employment as Chief Financial Officer commenced on April 12, 2005.

(2) Employment as Vice President of Sales commenced on August 3, 2004.

(3) Employment as Vice President of Research and Development commenced on January 1, 2006.

(4) Includes Mr. Jensen's election to receive one-half of his base salary in Common Stock during the 2007 fiscal year. As a result, 22,080 restricted shares were issued to Mr. Jensen on June 30, 2006 and recorded at $7.36 per share of Common Stock for a total value of $162,500 during the fiscal year. These shares vested as follows: 5,520 on July 1, 2006; 5,520 on October 1, 2006; 5,520 on January 1, 2007; and 5,520 on April 1, 2007

(5) Consists of cash bonuses awarded upon achievement of performance goals.

(6) Fiscal year 2007 includes 50,000 shares (25,000 vested on January 1, 2007 and 25,000 vested on June 1, 2007) valued at $8.00 per share and 71,428 shares valued at $5.90 per share relating to the Long-Term Equity Incentive Program for Mr. Jensen; 33,333 shares (16,666 vested on January 1, 2007 and 16,666 vested on June 1, 2007) valued at $8.00 and 21,485 shares valued at $5.90 per share relating to the Long-Term Equity Incentive Program for Mr. Herbert; 8,665 shares valued at $5.90 relating to the Long-Term Equity Incentive Program for Mr. DeMedio; 3,150 shares valued at $5.975 per share for Mr. McLaughlin and 4,500 shares valued at $6.15 per share for Mr. Sagady. Fiscal year 2006 includes 25,000 shares that vested on June 1, 2006 valued at $8.00 per share for Mr. Jensen; and 16,667 shares that vested on June 1, 2006 valued at $8.00 per share for Mr. Herbert.

(7) Fiscal year 2007 includes 25,000 options that vested on June 30, 2007 at the fair market value of the grant date of $5.51 for Mr. Jensen; 6,000 options that vested on June 30, 2007 at the fair market value of the grant date of $5.51 for Mr. Herbert; 2,333 options that vested on June 30, 2007 at the fair market value of the grant date of $5.51 and 1,500 options that vested on various dates during the fiscal year at the fair market value of the grant of $9.00 for Mr. DeMedio. Fiscal year 2006 includes 25,000 options that vested on June 30, 2006 at the fair market value of the grant date of $5.51 for Mr. Jensen; 6,000 options that vested on June 30, 2006 at the fair market value of the grant date of $5.51 for Mr. Herbert; 2,334 options that vested on June 30, 2006 at the fair market value of the grant date of $5.51 and 1,500 options that vested on various dates during the fiscal year at the fair market value of the grant of $9.00 for Mr. DeMedio.

(8) Represents cash payments for car allowance payments.

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GRANTS OF PLAN-BASED AWARDS TABLE

The table below summarizes the amounts of awards granted to the executive officers under our Long-Term Equity Incentive Program and the shares awarded to the two employees named below during the fiscal year ended June 30, 2007:

Name (a)	Grant Date (b)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)	Estimated Future Payouts Under Equity Incentive Plan Awards (1) Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)	All Other Stock Awards: Number of Shares of Stock or Units (#) (i)	All Other Option Awards: Number of Securities Underlying Options (#) (j)	Exercise or Base Price of Option Awards ($) (k)	Grant Date Fair Value of Stock and Option Awards ($) (2) (l)
George R. Jensen, Jr.	02/12/2007	-	-	-	187,500	535,710	669,638	-	-	-	$ 3,950,864
Stephen P. Herbert	02/12/2007	-	-	-	56,400	161,139	201,424	-	-	-	$ 1,194,302
David M. DeMedio	02/12/2007	-	-	-	22,747	64,989	81,236	-	-	-	$ 479,292
John McLaughlin	10/24/2006	-	-	-	-	-	-	3,150	-	$ 5.975	$ 18,821
Cary Sagady	03/08/2007	-									