PARTICIPANTS

Corporate Participants

Veronica Rosa – Vice President-Communication & Investor Relations, USA Technologies, Inc.
Stephen P. Herbert – Chairman & Chief Executive Officer, USA Technologies, Inc.
David M. DeMedio – Chief Financial Officer, USA Technologies, Inc.

Other Participants

Mike Latimore – Analyst, Northland Securities, Inc.
Gary F. Prestopino – Analyst, Barrington Research Associates, Inc.
Gregg Hillman – Analyst, First Wilshire Securities Management, Inc.
William L. Florida – Analyst, Advisory Research, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to USA Technologies Fourth Quarter and Fiscal Year 2013 Earnings Conference Call. Today's conference call is being recorded.

At this time, I would like to turn the call over to Veronica Rosa, Vice President of Investor Relations. Please go ahead.

Veronica Rosa, Vice President-Communication & Investor Relations

Thank you, and good morning. Before beginning today's call, I would like to remind our listeners that all statements other than statements of historical facts included in this call are forward-looking statements. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, included but not limited to, business, financial market and economic condition. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in our filings with the SEC including our most recent Annual Report on Form 10-K and the Form 10-Q report for the quarter ended March 31, 2013.

USA Technologies' financial results for the quarter and full fiscal year ended June 30, 2013, will be reported in USAT's Form 10-K that we intend to file with the SEC by its due date, September 30. Listeners are cautioned not to place undue reliance on any such forward-looking statements, which reflect management's view only as of the date they are made. USA Technologies undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

This call will also include a discussion of certain non-GAAP financial measures that we believe are useful for understanding our ongoing operation. These non-GAAP financial measures are supplemental to and not a substitute for GAAP financial measures such as non-GAAP income or loss. Details of these items and a reconciliation of these non-GAAP financial measures to GAAP financial measures can be found in our press release issued this morning and on the Investor Relations page of our website, usatech.com.

On our call this morning are Steven (sic) [Stephen] (02:07) Herbert, Chairman and Chief Executive Officer, and Dave DeMedio, Chief Financial Officer. We'll begin this morning's call with a fiscal 2013 business review conducted by Steve, followed by a more detailed analysis of fiscal 2013 4Q financial results and our outlook for fiscal 2014 by Dave. Steve will return for some closing remarks before opening the call to questions.

At this point, I'm going to turn the call over to Steve. Please go ahead, Steve.

Stephen P. Herbert, Chairman & Chief Executive Officer

Thank you, and good morning, everyone. We're very pleased with our progress at USA Technologies in fiscal 2013. The company achieved full-year non-GAAP profitability for the first time ever, driven in part by growth in recurring revenues of 29%. We also feel very optimistic about the progress we've made behind the scenes and across multiple aspects of our business that we believe will add value for USAT longer term.

One year ago, on this call, we said that our top near-term priority for fiscal 2013 was attaining non-GAAP profitability having crossed over into positive adjusted EBITDA territory during the third quarter of fiscal 2012. We met that mark on time in our 12/31 quarter through a host of actions that optimized our infrastructure and that brought our ePort Connect service base to scale at 186,000 connections. Concurrently, we executed on a number of key growth initiatives that further augmented our profitability in fiscal 2013 and that are fundamental to our long-term vision of attaining $100 million in revenues in the next three to four years.

Our progress is visible in our substantially improved financials compared to last fiscal year, highlights of which include: fiscal 2013 revenues of $35.9 million, 24% growth compared to fiscal 2012, driven primarily by 29% growth in license and transaction fees as we continue to add connections to our ePort Connect service base.

License and transaction fees were 84% of our revenues for the year. Just two years ago, that figure was 72%. Gross profit dollars of $14.1 million grew by 42% for the fiscal year. And gross profit margin of 39% expanded by about 5 percentage points from 34% last fiscal year.

Non-GAAP net income came in at nearly $1 million for fiscal 2013. When compared to a fiscal 2012 non-GAAP net loss of $3.8 million, this roughly $5 million improvement reflects execution across multiple disciplines of the business and I believe underscores the scalable nature of our business as we continue to add new customers, connections and services to our ePort Connect service.

Our strategy for growth has been straightforward and consistent. In its purest form, our goal is to continue to increase the number of new connections to our ePort Connect service and to create more value from each of these connections for our customers and for our shareholders.

In fiscal 2013, we increased our ePort Connect service base by 30% adding 50,000 net new connections for the full year, or 214,000 total connections as of 6/30/2013. We had projected a range of 52,000 to 60,000 for the year. Nonetheless, our financial targets essentially fell in line with our expectations.

In addition to these improvements to our financial makeup, we executed in many important areas of the business that we believe will bode well for the future. Examples, which I'll touch on individually later, include a 53% increase in our customer base; expanded distribution in adjacent self-serve retail verticals such as kiosk, amusement and a high impact win in the commercial laundry space, that combined contributed to over 7,000 new connections in fiscal 2013.

A host of customers are working to integrate their business with our ePort Connect service; work that began in fiscal year 2013 that we believe holds the potential for thousands to tens of thousands of future connections to our service. And we continue to innovate with a number of new products and services such as MORE, ePort GO, Isis SmartTap, and our new ePort G9 and G-10, all of which we believe should strengthen our prospects for fiscal 2014.

We believe the opportunity in the self-serve retail market is vast. Based on the markets where we already have a presence, we estimate the market opportunity at over $120 billion in annual transactions. It includes traditionally cash-based industries such as vending, commercial laundry, amusement, and it includes new automated technologies or industries that are taking advantage of credit, debit and mobile acceptance with increasing ingenuity; from specialty kiosk to our ePort GO product for the taxi and for-hire vehicle industry.

Last year on this call, I indicated that our work, in terms of driving connections to our ePort Connect service in fiscal 2013, would be centered on three areas: penetrating and diversifying our existing customer base; developing new distribution channels; and leveraging our expertise and network infrastructure to build a stronger presence in other ancillary markets like kiosk, laundry, carwash, transportation and others.

With cashless penetration still believed to be 10% in these markets, we think that mining our customer base continues to be our greatest opportunity in terms of added connections to our service. In fact, during fiscal 2013, approximately 80% of our connections came from our 6/30/2012 customer base; a group that we estimate manages between 2 million to 2.5 million potential locations. This kind of head start, is in our view, a significant opportunity for USAT.

In fiscal 2013, we added 1,750 new customers, ending the year with 5,050 customers, more than four times the customer account three years ago when we had roughly 1,000 customers. We were also pleased that 28 customers signed exclusive agreements with USAT in fiscal 2013. Our menu of ePort Connect services is continually expanding, from special purchasing programs to deployment consultation services, to our new MORE program.

So exclusivity not only gives these customers a form of VIP status, if you will, but it also provides USAT with increased visibility as to adoption rates and other needs of the marketplace. In fiscal 2013, expanding our sales and distribution reach encompass new verticals and the building of a deeper sales bench for USAT.

We added several distribution partners to penetrate ancillary markets like amusement, laundry and the others with greater speed. Examples include Ice House, a national franchise operator of ice stations, Betson Enterprises, a large national distributor for the $5 billion coin-operated amusement and arcade market, which contributed to about 1,000 new connections in fiscal 2013.

In addition, our ongoing relationship with the Verizon M2M sales team added roughly another 1,000 connections in fiscal 2013. This sales relationship kicked off approximately a year ago as part of our strategic agreement with Verizon Wireless that provides USAT with qualified leads for niche markets outside of our focus or bandwidth. On a larger scale, our new relationship with Setomatic Systems increases our presence in the $5 billion commercial and multi-housing laundry markets.

During the fourth quarter, we added roughly 5,000 cashless connections through 140 of Setomatic's commercial laundry operators. With the initial integration work behind us, we're now focused on working with Setomatic to further penetrate what is still called the coin-operated laundry market. We're looking forward to working with Setomatic to drive more connections, hopefully several thousand in this market in fiscal year 2014.

Lastly, we enhanced our own sales and marketing resources in fiscal 2013, more towards the second half of 2013, which is beginning to bear fruit.

We entered the taxi and for-hire vehicle market in fiscal 2013 and strengthened our national account coverage in vending while adding more support for value-add programs like MORE and the upcoming Isis loyalty promotion. We run a lean organization at USAT with an average of 51 FTEs, generating 24% top line growth for fiscal 2013. And while we envision expanding our sales and marketing support a bit further in fiscal 2014, we also expect an increasing part of our growth will be generated by simply leveraging our service platform.

In fiscal 2013, our capabilities and expertise for integrating our service with other automated machine technologies began presenting new opportunities across a number of markets. We've been integrating cashless payment with all varieties of vending and other automated devices for years, and we think our technical know-how is of high value to both new developers and OEMs.

Our integration with AMI Entertainment jukeboxes and Megatouch games is a great example. In this regard, our QuickConnect product, first introduced at the end of last fiscal year, is essentially a web service that benefits customers and partners by optimizing time-to-market. USAT's value here is threefold. We provide a streamlined path to certification to our network. We combine that with our unique technical capabilities in integrating cashless payment coupled with our comprehensive service ePort Connect. And these customers are attracted to the same things about our service that our customers love, simple, blended rates, low cost processing, settlement, 24/7 customer service and a growing menu of value-added services.

What this all means is that we want USAT to be the service of choice for anyone who is developing a retail self-serve application. This is how we were able to acquire the large number of connections that came with the Setomatic relationship, for example. And our recently released ePort GO product, which targets the $11 billion taxi and for-hire vehicle industry, is another example. ePort GO integrates our ePort Mobile solution and our ePort Connect service with software developed by one of our partners in this space.

And in doing so, it becomes unique solution that handles everything in that industry, from dispatching, to credit and debit payment, trip management, recordkeeping and navigation. We think ePort GO can be a nice replacement product for early adopters of cashless with expensive hardware and high processing rates. And in cities where cashless acceptance is just getting started, it's a cost-effective solution that gets these operators up and running in no time. If you haven't had a chance, I encourage you to check out the eportgo.com website and view one of the videos for a greater understanding of what this innovative new product does.

So we're hopeful that ePort GO and a number of customers that started their integration work in fiscal 2013 will evolve into thousands of connections for USAT in fiscal 2014. We've already earned an order for 3,000 new connections in less than a month from a customer that liked the work we're doing with ePort GO.

As noted earlier, an important element of our long-term vision is continued innovation that creates more value for our customers and for USAT; and a promising area to watch in fiscal 2014 falls under the category of consumer engagement services. Examples include our MORE loyalty and prepaid program and our upcoming nationwide loyalty promotion with Isis.

After testing and refining in fiscal 2013, we're now in the midst of a rollout of MORE, our loyalty and prepaid program. Customer interest, particularly in large regional and the national account area, is promising; and we already have a list of customers in the implementation phase.

Kobie Marketing indicates on its blog that 54% of consumers will consider increasing their purchases with a company for the rewards. Our customers are also identifying the point of difference loyalty programs can give them in an attempt to win and retain new accounts.

In the near-term, I view these new capabilities as yet another facilitator to drive adoption; but in the long-term, the potential to enhance revenue per connection that could be very attractive. Another interesting stat posted on the Consumer Insight Group's website claims that consumers who buy three times, relatively quickly, are 67% more likely to become long-term loyal customers.

Our upcoming Isis Fifth Vend Free promotion, an unprecedented offer in our industry recognized as the potential for building repeat business in that manner, particularly, inventing where the traditional cash only environment never allowed for any form of connection with the consumer. This is another value-added program specific to USAT that leverages the growing portion of our ePort Connect service base with contactless capabilities.

In order to execute this nationwide promotion, our development team worked with Isis to integrate the Isis SmartTap Technology with our contactless enabled terminals. SmartTap tracks consumer identifier information for loyalty purposes, a process separate from payment acceptance in the PCI requirements associated with credit card and debit card acceptance. Obviously, our promotion syncs with the nationwide Isis rollout scheduled to begin in November 2013. And it's our hope that this will be another very visible reason to continue cashless adoption into our fiscal 2014.

In summary, we expect the combination of our strategic initiatives led by an intense focus on our existing customer base across industry, products and service categories to give us solid momentum for fiscal 2014. We're expanding into broader markets and going deeper into those markets with value-added solutions that we anticipate will drive adoption and keep us ahead of the competition.

As we look at how all this will translate to our financial targets for fiscal 2014, we expect licensing transaction fees, which compromise – which comprised 84% of our revenue base to grow at a 25% to 30% cliff. We expect to see 100% improvement in non-GAAP net income for the fiscal year as we continue to leverage our infrastructure and the benefits of greater scale.

In addition, our growing service base – our growing service base continues – should be continue to be reflected in a stronger cash profile with fiscal 2014 potentially being the year, which we begin to generate sustainable free cash flow. In other words, the point at which cash from operations funds the level of capital expenditures necessary to support our growth goals, an important milestone for us to reach, we believe.

The momentum we have created to achieve these expectations takes into account one short-term hurdle that we need to address, which is the deactivation of approximately 11,000 connections with one of our customers in Q1 fiscal 2014. It's our understanding that these connections or some portion of them have been moved to this customer's home grown type solution.

In terms of the impact of these deactivations on revenues, it translates to approximately $1.1 million in revenue or approximately 2.5% of our expected revenues for fiscal 2014. Nonetheless as I've outlined above, we expect strong financial performance for fiscal 2014. We've been steadily diversifying our customer base and our connection activity looks solid compared to this time last year. Factors that together lead us to believe that we can continue to deliver solid revenue growth and substantial non-GAAP profitability improvement in fiscal 2014.

And with that I'm going to turn the call over to our CFO, Dave DeMedio for some additional details relative to the fourth quarter financials as well as financial trends anticipated for fiscal 2014. Dave?

David M. DeMedio, Chief Financial Officer

Thank you, Steve. Perhaps the most important financial achievement in fiscal 2013 was bringing the business to scale. This is most clearly reflected in our measure of non-GAAP profitability, which crossed over into positive territory in our second fiscal quarter and in the sustainability of that number through our fourth quarter and for the full year.

Non-GAAP net income was $200,000 for the fourth quarter, up from the loss of $400,000 in Q4 of fiscal 2012. As a reminder, an Excel file with these non-GAAP reconciliations is posted on the IR page of our website www.usatech.com under Financial Information.

GAAP net income and GAAP net income applicable to common shareholders was $1.7 million for the fourth quarter of fiscal 2013, which included $1.5 million of other income from the adjustment for fair value of warrants. As you may recall, last quarter in Q3 fiscal 2013, this number went the other way for an other expense of $1.3 million. These significant swings were primarily driven by fluctuations in our stock price at the December 31, March 31, and June 30 balance sheet dates.

Key drivers of our performance in the fourth quarter included 28% growth in license and transaction fees to $8.2 million, which represented 84% of our revenue mix for the fourth quarter and full year. In terms of total revenue, this growth was partially offset by equipment revenues of $1.5 million, which were flat versus the prior year.

Although direct purchases of our ePort devices, those away from JumpStart, grew slightly, revenues from our EnergyMiser line declined when compared to Q4 of 2012. Together, total revenues for the fourth quarter of fiscal 2013 of $9.7 million grew by 23%, up from $7.9 million in Q4 of 2012.

Our ePort Connect service base, which drives future revenues from license and transaction fees stood at 214,000 connections as of June 30. Net new connections in the fourth quarter totaled 18,000, the second highest level of quarterly reported connections for USAT. The mix of connections was more diversified in the fourth quarter reflecting our progress in penetrating to other vertical markets as well as the one-time integration of Setomatic's existing customer base in the quarter.

Commercial laundry accounted for approximately a third of net connections in the quarter while vending accounted for about 60% with all other including kiosks and amusement from customers like AMI Entertainment and Betson contributing approximately 10%.

Since our new laundry relationship and large customers like AMI Entertainment utilized software to integrate with ePort Connect, our mix of JumpStart to total net connections was 45% in the quarter much lower than the levels we've seen in our first three fiscal quarters bringing fiscal 2013 JumpStart as a percentage of total net connections added in the year closer to the levels we targeted for fiscal year 2013.

We also handled $62.7 million in small-ticket transactions in the fourth quarter, a 33% increase over the prior year's quarter for [ph] $219 million processed (25:14) in fiscal 2013. Gross profit for the quarter of fiscal 2013 increased to $3.7 million from $3.2 million in Q4 of 2012 with a slight decline in license and transaction fee gross margins bringing overall margins to 38% from 40% for the same period last year. The slight dip from 40% gross margin target on license and transaction fees was largely due to a reserve we recorded in the quarter for credit that we may issue to a customer.

GAAP and non-GAAP operating expenses of $3.5 million in the fourth quarter were relatively consistent with our plans as we began making additional sales and marketing investments in the second half of fiscal year 2013. Q4 GAAP and non-GAAP operating margin was positive 2.2% for the fourth quarter compared to a GAAP operating margin of negative 33% and non-GAAP operating margin of negative 5% for the same period in fiscal 2012. The difference between GAAP and non-GAAP last year being the proxy costs incurred in Q4 of last year.

Moving to cash and liquidity, improvements in non-GAAP operating income fueled adjusted EBITDA of approximately $1.6 million for the fourth quarter or 17% of revenues compared to an adjusted EBITDA loss of $1.4 million for the same period last year. Full year adjusted EBITDA was positive $5.8 million versus a loss of $2.8 million for fiscal 2012. A huge swing that is also evident when reviewing this year's cash flow statement, specifically cash flow from operations as adjusted EBITDA is a good indicator of cash generated by operations.

Our cash and cash equivalents stood at approximately $6 million as of June 30, down just slightly from $6.4 million at the beginning of the fiscal year. And cash generated from operations for fiscal 2013 was slightly over $6 million exceeding our target range of $4 million to $5 million. In fiscal 2013, we used $9.1 million of cash to fund a little over 70% of our net connections that came from our terminal included service program JumpStart as well as JumpStart equipment on hand at 6/30 – at June 30 to support future JumpStart connections.

Now, moving to guidance, our fiscal 2014 expectations call for solid growth and cash flow. But before I get to that, I wanted to walk through some key points for our upcoming first quarter. In terms of connections, we expect to be up over 10,000 reported – that we reported for the same period last year, enough to offset the loss from the deactivation mentioned by Steve earlier. Taking this into account, license and transaction revenues are expected to be up approximately 24% and total revenue up 18% for the quarter when compared to Q1 of fiscal year 2013.

In terms of the full fiscal year 2014, we expect continued growth in our ePort Connect service base to deliver growth in license and transaction fees in the 25% to 30% range for fiscal year 2014. Total revenues are expected to grow 20% to 25% for the fiscal year given the slower growth rate associated with roughly 15% of our revenue mix that comes from equipment sales.

These revenue expectations assume that our ePort Connect service base will increase by equal or slightly better than the 50,000 net connection count for fiscal year 2013. As the pace of adoption in vending and other markets increase in some of the larger integration projects reach commercial status, the timing of which is reliant on our partners in these spaces, we could see the connections potentially increasing over the course of the year.

In terms of gross margins, we continue to leverage our scale with suppliers related to the cost to deliver our service as well as with the manufacturers of our devices. We'll be using some of those cost reduction benefits to position ourselves more aggressively with pricing in the marketplace.

In terms of timing, we could see a slight margin decrease in the first quarter from the 39% to 40% range we reported in the first three quarters of fiscal 2013 to a 36% to 38% range. That dip should be short-term, however, as our costs reductions take effect and get us back to our 40% targeted range for license and transaction fees, most likely as soon as the second quarter.

Operating margins should take a similar path compressing then bouncing back for the remainder of fiscal 2014 and effectively translating to a doubling of non-GAAP net income for the fiscal year. Achievement of the above revenue and non-GAAP net income expectation should translate to a 40% to 50% increase in adjusted EBITDA from the $5.8 million achieved for fiscal 2013. This should translate to similar improvements in cash provided by operations for fiscal 2014 assuming modest changes in working capital.

In addition, provided we achieve this guidance, we expect USAT will begin to generate sustainable free cash flow in Q4 of fiscal 2014 to find this cash from operation less capital expenditures as reported in the investing activity section of the cash flow statement.

JumpStart will continue to be our largest capital expenditure requirement as it was in fiscal 2013, but we expect that to decline in fiscal 2014 as we make headway with new price, new hardware purchasing offers for our customers, a new lower cost ePort, and as we begin to gain more traction with software-based connection via our web service, QuickConnect.

Therefore as we look at our funding needs and sources for the next fiscal year, we continue to remain comfortable with cash on hand, cash expected to be generated from operations, and our $5 million credit line with Avidbank, of which the balance drawn on that line stood at $3 million as of the fiscal year-end. We also have the potential for another $2.4 million infusion of cash as the $1.13 USATZ warrants approach their maturity date of December 31, 2013.

And with that, I'd like to turn the call back over to Steve.

Stephen P. Herbert, Chairman & Chief Executive Officer

Thank you, Dave. I know we've covered a lot this morning. So, we'll get to your questions promptly. Our goal is to try to inform you regarding all the activity we have underway to drive growth and build value long-term for USAT. We continue to aspire to our three year to four year goal of being a $100 million company on approximately 500,000 connections that translates to double digit operating margins and a strong cash profile for the business.

To get there, we remain committed to building strength through scale, some market moving approaches that continue to define our industry and customer focused innovation down to the level of the end consumer through mobile, loyalty, and other innovative programs.

Lastly, our customer base is one of our greatest assets as market forces drive the rate of adoption and we believe the dialog is getting much stronger in this regard. To borrow a quote from one of our exclusive customers, City Vending, the revenue uplift that we are experiencing from our existing cashless locations has been compelling. I'm fully aware that cashless is the future. So, thank you for all of your support this fiscal year and for your attention this morning.

Operator, if you would please open the call and provide instructions for Q&A session. Thank you very much.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Mike Latimore from Northland Capital.

<Q – Mike Latimore – Northland Securities, Inc.>: Great. Thank you. Great financial turnaround this year you got.

<A – Steve Herbert – USA Technologies, Inc.>: Thank you very much, Mike.

<Q – Mike Latimore – Northland Securities, Inc.>: And then I guess, on the quarter you mentioned the 11,000 deactivations, is that – are there anymore connections lost after that – of that customer?

<A – Steve Herbert – USA Technologies, Inc.>: Yes, indeed. There is an ongoing relationship there.

<Q – Mike Latimore – Northland Securities, Inc.>: So, the – would you anticipate that this 11,000 is the remaining connections that would deactivate or you should expect more after that?

<A – Steve Herbert – USA Technologies, Inc.>: You know, Mike, it could very well be that the 11,000 is it; it could be a few more. We're really not a 100% certain, but we do have – we have a friendly – working relationship with the customer and continue to service them every day.

<Q – Mike Latimore – Northland Securities, Inc.>: Okay. And then just – your guidance on connections for the first quarter, wasn't clear if you expected total connections to grow by 10,000. So, from 2014 to 2024 or are you adding 10,000 and that – [ph] and that nets (35:21) out to may be having a similar total connection number in the first quarter?

<A – Dave DeMedio – USA Technologies, Inc.>: Mike, its David. It's the latter, growth, the connections before the deactivation will be up over 10,000. And then taking into account the deactivation, it probably – the end of the quarter should be very close to how we ended fiscal year 2013.

<Q – Mike Latimore – Northland Securities, Inc.>: Okay. And then...

<A – Steve Herbert – USA Technologies, Inc.>: I think the...

<Q – Mike Latimore – Northland Securities, Inc.>: What's that?

<A – Steve Herbert – USA Technologies, Inc.>: Oh, I was – I think one of the points Dave was making too with that comment was that we expect connections to be up over the 10,000 that we did in the same quarter last year, first quarter.

<Q – Mike Latimore – Northland Securities, Inc.>: Right. Okay. Got it. And then just last year, you said 51 employees I believe, I mean what's the rough view in terms of the number of head count additions you might see this year?

<A – Dave DeMedio – USA Technologies, Inc.>: You know, Mike, I think it would be – I really think it would be de minimis. We're not – we're not looking at large head count additions. We'll probably add – if we do add, it'll be in the area of sales and marketing, and may be some customer service. But other than that, we'll probably [ph] hold path (36:46) with what we have.

<Q – Mike Latimore – Northland Securities, Inc.>: All right. Thanks.

<A – Dave DeMedio – USA Technologies, Inc.>: We believe there's a lot of scale in the infrastructure we have in place now.

<Q – Mike Latimore – Northland Securities, Inc.>: Great.

Operator: Thank you. And our next question comes from the line of Gary Prestopino from Barrington Research.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Hi, good morning, everyone. The Setomatic deal, you said you added several thousand in the quarter or 5,000, and then there was several thousand more. I mean could you quantify just how big that opportunity could be in terms of total connections?

<A – Steve Herbert – USA Technologies, Inc.>: Well, Gary, it's Steve Herbert. Thanks for the question. It's a very good one. The fact is that, I want to be very clear about what the Setomatic's relationship is about. They – Setomatic is a company that sells different types of solutions including payment solutions to the commercial laundry industry. So it's – for instance the 5,000 connections that we got came from over 100 of their commercial laundry customers. So, the size the opportunity is essentially – now, Setomatic isn't going to get 100% of the commercial laundry industry, but it's a very large opportunity, and our relationship with them is such that they are selling our service into their existing and prospective customer base in the commercial laundry industry. So we think – we think there's significant upside.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Okay. So, all right, that's fine. I mean, are they serving a base of what 100,000, 200,000 actual machines?

<A – Steve Herbert – USA Technologies, Inc.>: Well, Gary, I don't have that number at my fingertips. But with, with 100,000, I believe it's 140,000 commercial laundry operators that they already had on board. I would anticipate that – I would assume that they serve a very large base of customers. And they want to run hard with this solution with their own customer base as well as prospects in the industry.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Okay. And then in terms of the client that you lost, the last question in terms of what is the vulnerability to losing more connections. Can you give us what your total connections are with this company at this point?

<A – Steve Herbert – USA Technologies, Inc.>: Well, we – that's hard to do. We have some connections with that customer. So we have not – we haven't lost the client. In fact, we have little to no actual customer churn, if you will, but the – Dave, did you want to make a comment about that.

<A – Dave DeMedio – USA Technologies, Inc.>: Well, Gary, I can quantify the amount of business that we continued to have with that customer at least in terms of our license and transaction fee revenue. So, 7% of our fiscal year 2013, roughly 7% of our fiscal year 2013 license and transaction fee revenue remains still active with the customer. That concentration percent for fiscal year 2011 was 11% in total. So, the loss of – in other way to state that, the loss of the 11,000 represented about 4% give-or-take of fiscal year 2013 revenue. I'm sorry, we still have considerable number of business with the customer.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: 7% is after you lose these connections that is...

<A – Steve Herbert – USA Technologies, Inc.>: It is, it is, yeah. It's the amount that continues with that customer in the fiscal year 2014.

<A – Dave DeMedio – USA Technologies, Inc.>: You know, Gary, the interesting thing about this, you know with these, we've had – we've had existing customers, prospective customers, and customers that we gain kind of playing around what we call homegrown type solutions. And I think AMI is a great example and I've talked about it openly before on calls and things. Typically what will happen with someone who try to do a homegrown type thing is they start to figure out pretty quickly what the risk profile is. All of a sudden they're worried about PCI compliance and data security and a bunch of things that really aren't core to their business.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Right.

<A – Steve Herbert – USA Technologies, Inc.>: So, in fact, in the case of AMI, I remember very well sitting with them and having the CEO say, we just, obviously, I was biased, but I thought it was a great business decision. He said, please get us out of this business. I don't want servers with credit card information moving through them, that's not my core business. It's not what I do. So, this is – I guess the point I'm trying to make is that the trend seems to be going in the other direction and our customers tend to think the opposite way of this. So, it's just – it's not something that we're overly concerned about long-term in terms of it being a trend. I hope that's helpful.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Well, it is. But, I mean, look, from the standpoint of the investor base and the clients we serve, this is a large customer that you're saying is moving it in-house. And what you're just saying is that the trend is just the opposite, but this customer is doing that. So that's why we're trying to get exactly what the level of vulnerability is here?

<A – Steve Herbert – USA Technologies, Inc.>: I just – I just wanted to add some color for you, that's all.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: That's fine, that's fine. Thank you.

<A – Steve Herbert – USA Technologies, Inc.>: Yep.

Operator: Thank you. And our next question comes from the line of Gregg Hillman from First Wilshire.

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Hi, Stephen, I'm a little bit new to the story, but maybe – maybe you could talk about the importance of telemarketing and Internet marketing to – for your company for some of the verticals you're serving? And then also what level of like technical expertise that your salesman you need to have like a value-added reseller selling IT equipment has to be pretty good like engineer, and do you need those types of people to make sales?

<A – Steve Herbert – USA Technologies, Inc.>: Right. Well, that's – that's a terrific question and thank you for asking. We – telemarketing is an important part – telesales, telemarketing whatever you want to call it is actually an important part of our sales mix. We tend to focus those people on what we call SMB, small medium business and it's good, high margin business. It's not super high volume, but it is very nice high margin business. So it's an important part of our mix and it's one that we will continue to build upon. And obviously it's a – it's a low-cost sales well in the terms of it being done over the telephone. So we've been successful in that regard.

In terms of the capabilities that our salespeople need to have, their backgrounds and the work that they do with customers is really more focused on being a consultative salesperson and talking to that customer about how cash flows and the other things that we do can impact their business from a financial perspective. We recently did some market research, and one of things that popped out from our market research with our existing customers is that our salespeople or what they call trusted advisors related to their business. So they really – they have to have some technical expertise, but it's really more important that they are – I think everyone can identify with term consultative salesperson. They're really focused on the customers' mix of business, where to best leverage cashless for them, and how it impacts their bottom line. Does that help?

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Yeah. And also, Steve, can you touch on the Internet marketing too please?

<A – Steve Herbert – USA Technologies, Inc.>: Sure. Well, when you say Internet marketing, could you clarify that for me a little bit more?

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Well, I mean driving people to your website or to your telemarketing, people using the Internet.

<A – Steve Herbert – USA Technologies, Inc.>: Right. Well, we certainly – we leverage it heavily. We run many, many programs whether it's an e-mail campaign or we using web banners on trade sites. We actually do a lot of things to drive calls into our telemarketing folks, but also to drive calls into our regional sales team as well; and those are the folks we were talking about a minute ago. So quite a lot of activity.

We also have a presence on the web, and customers tend to buy. Once they're established, they can buy on the web and have done so in increasing quantities. They also buy parts. My vision for the future there is for a very substantial part of our business, particularly when it comes to our existing customer base, those people who are already educated, they are just pulling stuff right through the web.

And that's the beauty, that's really the beauty of leveraging 5,050 customers with so many potential locations. If we perform well and lay the performance data in front of them and drive them to the website, they won't need any handholding from us. So I hope one day on this call that we reporting some very significant percentage of sales going right through the website.

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Interesting. And, Steve, just finally, what do you consider to be your constraints to growth?

<A – Steve Herbert – USA Technologies, Inc.>: We get that question a lot, and I think the thing that we talk about the most around here is adoption. And I wouldn't call it a constraint, it's a matter of how adoption will continue to accelerate in these self-serve verticals. Some tend to be moving faster than others, but I think adoption will be the – it will essentially be the throttle, if you will. As adoption increases, growth will take off and our business, our service, again which makes up 80%, 85% – 84%, 85% of our revenues is very scalable, the model is very scalable. We have plenty of capacity if we need devices. So it's really none of those things that people may think about, it's really just related to how the industry goes up the adoption curve.

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Okay. Thanks very much.

<A – Steve Herbert – USA Technologies, Inc.>: [ph] You got it (49:27).

Operator: Thank you. And our next question comes from the line of William Florida from Advisory Research.

<Q – William Florida – Advisory Research, Inc.>: Hello. The question has been addressed. Thank you.

Operator: Thank you. And our next question is a follow-up from the line of Gary Prestopino from Barrington Research.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Yeah. Steve, could you maybe just go into a little bit more where you are with the loyalty program, where you are with the Isis Mobile Wallet? And then maybe talk about what are some of your competitive advantages in the taxi market, because we all travel around and it seems that now more and more cities have the capability to – or cabs have the capability to take credit cards. So if you could address how you're going to attack that market and maybe how you're going to either displace existing providers as far as option?

<A – Steve Herbert – USA Technologies, Inc.>: Okay, great. So I have two things. First, Gary, we'll talk quickly about Mobile and our MORE program. The MORE program is currently being rolled out and it's essentially – for the first time people in unattended retail and let's use vending as an example, they have an opportunity to actually – vending operator, let's say, Dave DeMedio here is a vending operator, he has the opportunity now – who is someone who signs up for the MORE program, he has an opportunity to connect with his consumers. So they sign up for the loyalty program and they're able to participate in that loyalty program either through a prepaid card, which is adjacent to a part of the MORE program.

So you can use prepaid, which is very similar to something like E-ZPass it does – for those of you who know, or toll road type stuff, it doesn't auto reload, et cetera. So he can use that to make his payments. And in addition to that, he can build loyalty points to get discounts on products in the future, et cetera.

Now that's all great for a consumer, that's a nice value-add, but one of the big benefits that our customers see when they look at having a loyalty program available is once they get their fingers into relationships with the consumers in an account, the likelihood of them being removed from that account – and this comes right from our customers, once I get my fingers into those consumers, they're not – it's very unlikely that account is going to flip.

On the other hand, they see it as a tremendous value-add to be able to go in and get new business. They want to be the first one to offer the MORE program and say, we've never had anything like this, for instance, in vending and here's something new and exciting that I can bring to you that adds value and creates some excitement for your employees.

So the most important thing you remember about loyalty in prepaid is the fact that it really gets our customers excited about what it can do to affect their business at a very fundamental level; and, of course, we think of it as a way to accelerate adoption as well. So I hope that answers your question on the MORE program. We're very pleased with the reception that we've gotten thus far with this as an addition to the ePort Connect service.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: [indiscernible] (53:26).

<A – Steve Herbert – USA Technologies, Inc.>: Sure, go ahead.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: You've got to sign up the vendor to have this as a part of their business, and that vendor then will be able to ping the mobile user with all sorts of loyalty rewards and things like that?

<A – Steve Herbert – USA Technologies, Inc.>: Well, that's one of the – yeah, the answer to that is, yes. The beauty of that connection with the consumer is they – that's exactly right, they can reach out, they can ping that consumer, they can incent them to buy something during a certain day part. It's just something that's never existed in the industry, the ability to promote like that. So a very, very high perceived value.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Right. Thank you.

<A – Steve Herbert – USA Technologies, Inc.>: Now on the Isis, you asked a question about Isis, it's really very simple. Our relationship with Isis started in their first two markets, Salt Lake City and Austin. We essentially did mobile payment with them in a number of thousands of locations using the Isis Mobile Wallet in those markets.

We were rolling out nationally with them now, and we're really – we're going to do two things. We're going to accept mobile payment at, obviously, many thousands of locations nationwide, but in addition to that, because we built the loyalty backbone into the ePort Connect service, we're able to execute with Isis a program called the Fifth Vend Free.

So essentially when someone is using their Mobile Wallet, they make four buys and their fifth is free. It's really that simple. It's exciting for the vending operators once again, because they've never been able to do this type of thing. They're connected with the consumer via a mobile device. They can push them offers. You can see the value of that.

And then finally you asked a question about the taxi industry, how are we going to approach that market? We're going – and I'm glad you asked that question, because it answers a couple of other things. I'm sure everyone has picked up on the fact that in amusement what I call – I tend to call these adjacent self-serve retail verticals. So when I say they're adjacent, they're adjacent to really our core market in self-serve retail, which is vending. So there is kiosk, there is amusements, there is now the taxi market that we're chasing. We're going after those through partners.

Those partners maybe a company that sells software to that industry or they're selling some type of solution; it could be Betson in amusements, who is purely a distributor; it might be someone else who's an OEM. But the point here, Gary, is that instead of trying to dive deep into those verticals, we're aligning ourselves to the people who are already serving those industries; and that's how we were able to get quick traction if – no pun intended, quick tractions in the taxi market.

Just one other comment on that, I know that we all use this stuff, I mean Dave and I were on a day trip yesterday and used a card in a cab. The feeling in the industry, it seems, is that that first wave of technology was somewhat clunky and very, very expensive, not only from an equipment standpoint, but from a transaction standpoint. And the thing that we've done – one of the things we're hoping and that we're kind of finding here is that, you've got a market that's already somewhat conditioned, but they don't like what they have now.

So we're finding some receptiveness even with those folks who've implemented these older systems. But the key point, how are you going to attack the market? Clearly through partners. We're not going to be out there in amusement, kiosks, et cetera, running after individual customers, we're going to work through partners.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Okay. And then just -I promise this is the last one, did you mention on the call just how many connections you signed up on the taxi side yet or is it just [ph] in tendency (58:07) that you rolled this out?

<A – Steve Herbert – USA Technologies, Inc.>: We did. We mentioned – we actually mentioned that we signed an account for 3,000 connections fairly quickly in the process. So that was very encouraging. We got off to a quick start.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: All right. Lastly, again, on this taxi thing. Is there – are you also approaching the limousine market for in-car payments? Is that something you...

<A – Steve Herbert – USA Technologies, Inc.>: Well, that's an industry that has a few large players in it. And the same integrators and software folks that sell, say, dispatching systems and things like that to that industry are perfect partners to talk to those people; and they've already done so. So the answer is, yes. I think the taxi opportunity is probably going to be larger, but who knows.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Okay. Thank you.

<A – Steve Herbert – USA Technologies, Inc.>: Sure. You got it.

Operator: Thank you. And we're now out of time for any further questions. That does conclude our conference for today. Thank you for your participation, and you may now disconnect. Everyone have a good day.