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

Gary F. Prestopino – Analyst, Barrington Research Associates, Inc.
Mike Latimore – Analyst, Northland Securities, Inc.
Alexander Renker – Analyst, Sidoti & Co. LLC
Jim E. Gentrup – Founder, President & Senior Analyst, Ceiba Equity Research

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the USA Technologies Third Quarter and Fiscal Year 2014 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, including but not limited to business, financial market and economic conditions. 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 Securities and Exchange Commission including our most recent Annual Report on Form 10-K and the Form 10-Q report for the quarter ended December 31, 2013.

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 operations. These non-GAAP financial measures are supplemental to and not a substitute for GAAP financial measures such as net 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, www.usatech.com.

On our call this morning are Stephen Herbert, Chairman and Chief Executive Officer and Dave DeMedio, Chief Financial Officer. We'll begin this morning's call with a review of our results relative to our strategic priorities, followed by a more detailed analysis of the third quarter results by Dave. Steve will return for some brief closing remarks before opening the call to questions.

So 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, Ronnie and good morning everyone. The third quarter included some great progress and important milestones for USAT. Revenue of $10.4 million, grew 16% and license and transaction fee revenue, representing 86% of total revenues in the quarter were 19%. More importantly, the steps we have taken to attract new connections to our service in vending, laundry, taxi, amusement and other markets are yielding results, with 22,000 gross connections added in our third quarter, the highest we've ever achieved. With 20,000 net connections added in the third quarter, our total service base grew to 244,000, up from 196,000 as of March 31, one year ago, an increase of 24%.

In addition, the third quarter included several important wins in vending and taxi and transportation that spanned beyond the quarter giving us a very healthy pipeline for new connections going into the fourth quarter.

If you've already had a chance to review our press release, another big event for USAT that most likely jumps off the page was the $26.7 million deferred tax asset recognized in the third quarter. This recognition event moved our GAAP net earnings per common share to $0.75, while non-GAAP net per common share came in at breakeven. For all of you who aren't tax experts, like myself, essentially what this means is that based upon our recent earnings performance and our belief that we'll continue to generate taxable earnings, this $26.7 million reflects a portion of future earnings on which the company will not be required to pay tax.

We are also very encouraged by what we're seeing in the $120 billion self-serve retail industry that we address. There is a growing awareness among consumers, customers and partners that a cashless transition is well underway.

As I mentioned last quarter, this [ph] stage in (04:39) emerging markets requires USAT to be assertive, flexible and swift in executing strategies that drive market share and create competitive advantage, and we've done that.

Strong connections, a solid pipeline and a growing list of partners and customers that recognize the value of our end-to-end service platform are all very encouraging. And not all of those accomplishments are reflected in current quarter results, rather as Dave will get into later the revenues from a portion of our recent connections [ph] come in (05:11) time as license and transaction fees related to those new connections are fully realized.

We believe the market opportunity is in front of us. Our leadership position and the strategies we have in place to further develop our value in the marketplace will support our target over the next three years to four years of $100 million in revenue and double-digit operating margins. As we drive towards these objectives, our top priority is to do what we can to continue to accelerate the rate of connections to our service and add value to those connections.

Our most significant opportunity lies in driving further reduction within our customer base. We won't disclose that we believe our existing customers manage over 2 million potential connections, and we have continued to add to that opportunity with double-digit growth in our customer base quarter-after-quarter.

Industry sources estimate that there are over 14 million to 15 million potential connection points in the thousands of vending taxi commercial laundry arcade and kiosk operations in the U.S. today. During the third quarter, the majority of our connections came from our existing customers. Although many customers are just starting out, USAT customers are seeing the benefits of cashless and they continue to add connections. For example, we recently did a study of customers that have been on our service for approximately four years. Four years later, the average number of connections with those customers grew 220%.

Our primary objective is to do what we can to help move these customers further along the adoption curve with greater speed by delivering value in multiple ways. Today, many of our customers are seeing average transactions that are at least 30% higher, when a consumer uses credit or debit versus cash. In addition, cashless gives our customers the ability to increase price without the declines in sales volume that are typical in a cash-only environment. And cashless provides an increasingly important platform for data management and loyalty programs.

What we're seeing as this market transitions is a building pressure for our customers to offer cashless to retain and win new accounts. That said, overall cashless penetration is still low in the markets we serve providing what we believe is a tremendous opportunity for future growth. In the third quarter, our customer base grew by 47% compared to just one year ago for a total of 6,650 customers as of March 31.

And with new integrated services that enable us to tap into micro markets, dining services and other aspects of these businesses, we are expanding our market opportunities even further. Take micro markets for instance, according to Automatic Merchandiser, there're roughly 3,000 micro market locations identified in their 2012 survey, drove the equivalent in sales to almost 90,000 vending machines. So our ability to integrate with micro market technologies should greatly expand our opportunity.

To continue to move the industry forward, one of our strategic priorities is to introduce new products and services that further unleash the value of a connected cashless platform. Few areas of increasing interest and opportunity, our recently introduced Integrated Payment Services model and as we've spoken often on these calls, the emerging opportunities in loyalty and mobile payment.

Integrated Payment Services is a great example of how we've evolved our ePort Connect service. It drives additional revenue from existing customers for USAT and importantly it's something our customers have asked for a number of reasons. First, they are seeing good results with cashless in their vending business with USAT, and they want to leverage that further.

In addition, they want to be able to take cashless across their business to areas where they aren't necessarily taking cashless today.

Finally their businesses have evolved and the opportunity to simplify, and add value through USAT for example, by integrating into their new micro-market offerings with ePort Connect is very compelling. For the operator, it makes great sense.

One payment processor, one data provider, one set of data, one customer service relationship across multiple facets of their business. Industry reaction to this new offering has been extremely positive. During the third quarter, we signed a new agreement with The Pepi Companies for Integrated Payment Services. Some of you might recognize the name because it was one of our first operators to go 100% cashless. Yet Integrated Payment Services offers us the opportunity to substantially grow our relationship with this customer, as we introduced USAT products and services horizontally, across their vending and food service spectrum.

Turning to another customer story, part of the healthy pipeline I mentioned, is a large canteen operator that made the decision to dramatically accelerate cashless adoption in the third quarter, in part, due to what they're seeing and hearing about cashless ROI in their own business, as well as USAT's Integrated Payment Services. In fact we're working to help them rapidly deploy several thousand connections, although what we anticipate should be the next one quarters or two quarters with several thousand already deployed during our third quarter. With large companies like this moving forward into cashless in a thorough swift and strategic way other than the industry are forced to keep up.

Mobile payment and related services also continue to be a hot topic within the payment community. With over 1 billion smartphones purchased in 2013 alone, mobile relative to USAT's product and service roadmap continues to be a priority. It's also an area where we believe USAT has an established advantage. Our early work with NFC has proven our theory that the self-serve retail market can be a valuable asset to digital wallet providers to advertisers and app developers, all poised to benefit from reaching an entirely new subset of consumers never before reachable in an unattended cash-only world.

For example, our current mobile payment and Fifth Purchase Free program with Isis is already in 75,000 locations. The number of consumers taking advantage of this program is growing weekly with usage up 450% since the [ph] start (13:04). Strategically, Fifth Purchase Free program helps USAT win business as operators come to acknowledge the importance of incorporating mobile as part of their cashless strategy. And for our partners, it reinforces the value of the self-serve retail community as they strive to reach a broad-based population of consumers for their respective applications.

Our philosophy has always been about supporting point-of-sale options in any form, which all drive connections to our service. We recently released a consumer app for our more loyalty program that uses our new eBeacon mobile payment technology powered by Bluetooth Low Energy or BLE.

Now available in the iTunes store, our MORE Mobile app provides an easy and secure way for consumers to identify participating locations, purchase product and track their MORE rewards on their smartphones. From a functionality perspective, it's bidirectional. Meaning that, it can communicate at the point-of-sale to and from a smartphone giving us the ability to among other things push offers to a consumer's phone.

It's increasingly evident to us that the payment industry at large recognizes the long-term implications of mobile and USAT has continued to be at the forefront of this trend on behalf of our customers.

Recently, we entered into a relationship with BYNDL, a mobile technology innovator. They share an important bandwidth to our innovative resources in mobile. BYNDL recognizes vending as an important playing field for mobile apps and they recognize USAT's scale and complementary strategic vision in this area.

For example, we'll be working with them to enhance our MORE mobile app, for gamification or hyperlocal offers. In other words an offer or coupon delivered to your phone based upon your location. These are all innovative services that we believe can drive new benefits for operators through targeted demand creation and greater insight as to consumer purchasing preferences.

[indiscernible] (15:28) start in building a comprehensive service platform continues to attract developers, manufacturers and other partners that require a scalable and reliable service partner like USAT. During the third quarter, for example, we added several names to the list of technology we now support on our service. Two micro market solution providers, Revive Checkout Services and [ph] ECRFs (15:54), plus an additional point-of-sale offering, AirVend's touchscreen technology. These new relationships allow us to further leverage our service infrastructure while providing our customers with the broadest selection of products and services under our turnkey ePort Connect solution.

We continue to work with a host of other third-party providers of self-serve retail applications, both large and small, who realize the advantage of the scale and expertise provided through USAT. Our work in adjacent markets beyond our core vending channel continues move forward. In laundry, we continue to add connections in the third quarter through our integrated offering, the Setomatic Systems. This relationship targets the $5 billion commercial laundry space and has brought USAT approximately 7,500 new connections to date.

Another growing area is taxing and transportation. We've made tremendous strides in expanding our growth opportunities to reach this market and in the third quarter achieved 2,000 new connections in this area. To date, our strategies in taxing and transportation have yielded over 12,000 achieved or contracted connections, many of which represent part of our pipeline of new connections that I referred to earlier.

In summary, our established presence in the marketplace and the infrastructure we've created along the way continues to attract customers, manufacturers and partners alike, all of which drives connections for USAT. We're clearly focused on driving financial performance and the best way to do that we believe is to continue to gauge the pulse of adoption in the marketplace, the current competitive landscape and to capitalize on existing customer opportunities to drive long-term value for our shareholders.

And with that, I'm going to turn the call over to our CFO, Dave DeMedio, for additional comments relative to third quarter results and our outlook for the remainder of fiscal 2014. Dave?

David M. DeMedio, Chief Financial Officer

Thank you, Steve. Our results for the third quarter reflect continued progress in growing our recurring revenue base, including a strong quarter of new connections that will benefit future periods. As Steve noted, our Q3 GAAP EPS included a $26.7 million benefit from income tax, related to the reduction in our valuation allowance, as we recognize deferred tax assets in the quarter. Under GAAP, our valuation allowance can be reduced, as we have determined that is more likely than not that our net operating loss carry-forwards will be realized to offset future taxable income of USAT.

We took a conservative approach to this analysis, given among other things a crossover to profitability in 2Q of last fiscal year with $26.7 million representing a little over half of the total deferred tax asset. We will continue to reevaluate the need to keep some or all of the remaining $22.8 million valuation allowance on our deferred tax assets as we continue to grow taxable earnings. Reflecting the deferred tax asset, GAAP net income for the third quarter was $26.9 million.

After deferred dividend, GAAP net earnings per common share was $0.75 for the third quarter. On a non-GAAP basis, which excludes the benefit of reducing our valuation allowance and the fair value of warrant adjustment. Non-GAAP net income was approximately $322,000 for the third quarter, compared to non-GAAP net income for Q3 of fiscal 2013 of $293,000.

As to preferred dividends, non-GAAP net loss per common share was essentially breakeven or zero for Q3, same as Q3 of last year. In all, total revenues for the third quarter grew 16% to $10.4 million. Licensing transaction fees grew 19% in the third quarter to $9 million.

License and transaction fees are generated by monthly fees and transaction processing fees that stem from connections to our ePort Connect service. And for the third quarter, they represented 86% of total revenues. On a year-to-year comparative, growth was primarily impacted by the 21,000 deactivations that occurred in Q1 and Q2 of this fiscal year, with the third quarter having no revenue related to these connections.

In addition, while we continue to replace those deactivations with new connections, revenues from some of those new connections will take a bit longer to materialize as Steve mentioned earlier. For example, we have approximately 12,000 connections from Q2 and Q3 that won't fully materialize in terms of license and transaction fee revenue until Q1 of fiscal year 2015. This is a short-term effect of softening growth from license and transaction fees as well as respected gross margins, which you see in our results this quarter.

Gross profit of $4 million for the third quarter increased approximately 9% from $3.7 million for Q3 of fiscal year 2013. Gross margin came in at 38.3% from 41% for the same period last year, which was a particularly high quarter for us.

Equipment margin was approximately 54%, a bit higher than usual, due to a rebate adjustment, revenue earned under our ISS marketing agreement and activation fees. Gross margin on license and transaction fees was 35.7%, down from 40.2% for the same period last fiscal year. Contributors to the margin decrease included the first half deactivations and various new sales and marketing programs. For example, in the program referred to earlier if revenue is attributable to the 12,000 connections, having fully realized in Q3, gross margin on license and transaction fee would have been closer to 38%. So for now, we are incurring the cost of services until those new revenues kick in.

As we indicated last quarter, we are still in the introductory stage of this market transition, requiring us to be assertive with sales, marketing and product service offerings that add competitive advantage and market share.

Other financial highlights for the third quarter include gross connections of approximately 22,000 with about 80% coming from vending customers in the quarter.

In adjacent markets, we drove a nice level of new connections in the quarter with 10% coming from taxi and transportation and the remaining 10% from commercial laundry amusement and other market segments. Net connections for the third quarter totaled 20,000, 100% increase from Q3 of last fiscal year. Market diversification efforts, cost effective strategic partners and increased sales and marketing support to drive adoption have all contributed to this substantial improvement performance since Q3 of last year. Existing customers as of last quarter drove about 75% of new connections in Q3. We handled $73.9 million in small ticket transactions in the third quarter, a 36% increase over the prior year quarter. Transaction volume of $42.8 million increased by 32% from the prior year.

Currently, the ePort Connect network handles about 1billion in transactions a year, supporting both cash and cashless transactions which is a value data and reporting service we provide for customers. Both GAAP and non-GAAP operating expenses were $3.6 million in the third quarter, up from $3.3 million in Q3 of fiscal year 2013, primarily due to increased head count. Operating margins both GAAP and non-GAAP were 3.5% in the third quarter with greater expansion of operating margins anticipated for Q4.

Moving to cash and liquidity, we're focused on achieving sustainable positive free cash flow. We define free cash flow as cash from operations less capital expenditures as reported in the statement of cash flows. For our first quarter, free cash flow was negative $1.2 million and our second quarter free cash flow was negative $735,000 and this quarter it was negative $510,000, a steady marked improvement as we're closing in on our goal.

As we stated last quarter while we would like to achieve free cash flow in our fourth quarter, the timing relative to achieving this target was dependent upon a number of factors including continued improvement in adjusted EBITDA, and on the other side of the equation connection opportunities and the mix of those opportunities relative to cash use for JumpStart.

During the third quarter, JumpStart was used for a little over 65% of gross connections, with other connections achieved through direct hardware sales, third-party hardware or QuickConnect integration to our ePort Connect service. We've also worked to lower our cost on these units and then the third quarter continue to shift our new lower cost ePort G9.

Our cash and cash equivalents as of March 31 stood at approximately $6.6 million, up from $3.9 million as of Q3 of fiscal year 2013. For the remainder of the year, we remain comfortable with cash on hand, continued improvement in free cash flow and our credit line with Avidbank.

Turning to our outlook for the full fiscal year, we continue to balance short-term goals with larger strategic wins that started to drive further momentum in the business. For instance in terms of further momentum in the business, Q3 record gross connections as well as the pipeline of orders we began Q4 with are encouraging signs as we wind down our fiscal year 2014, as revenues from these connections will begin to contribute to revenue in early fiscal year 2015.

Based upon the way in which we began the fourth quarter and the manner in which we expect the quarter to unfold, many of the goals we set for fiscal year 2014 are within reach. Two of these goals, however, present more of a challenge for many of the reasons we've previously discussed in this call, they are 40% year-over-year growth in adjusted EBITDA and 25% year-over-year growth in license and transactions fee revenues.

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

Stephen P. Herbert, Chairman & Chief Executive Officer

Thank you, David, and thank you all for your attention this morning. I can't emphasize enough how encouraged I am by what I'm seeing in the marketplace with our own improved execution in driving new connections for USAT. We had a record number of new connections for the third quarter. We're driving 20% revenue growth even after a major headwind for the year. We have a very healthy pipeline going into Q4 and we still have more upside to recognize from Q2 and Q3 connections, strategically reflecting the power of our service model to create added differentiation in new opportunities including more customers and more third parties that want to do business with USAT.

Lastly, if you caught the press release last week, we're very proud to be the recipient of Frost & Sullivan's 2014 North American Award for Customer Value Leadership in Financial Services and Retail M2M Communications. Frost & Sullivan is a highly respected global research organization and to have their 10-step research process validate what's happening in this industry, and the leadership role played by USAT is simply another great milestone event for the USAT and for its shareholders.

And now operator, we'd be happy to take questions. So, if you would please go ahead and provide instructions for our Q&A session. Thank you very much.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Gary Prestopino from Barrington Research.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Hi, good morning everyone.

<A – Steve Herbert – USA Technologies, Inc.>: Good morning, Gary.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Couple of questions. So I'll just try and take them one at a time or get back in the queue. Could you maybe just in terms of these deactivations and the change in the gross margin, where it's basically been down the last couple of quarters. Could you explain how these deactivations impact that gross margin and then I guess the question going forward would be, as these annualize, would that gross margin get back to where it was in the close to 40% range or has something changed in the industry competitively that will not allow you to do that?

<A – Dave DeMedio – USA Technologies, Inc.>: Gary, thank you for your questions. This is Dave. Regarding the deactivations and how they impact margins, the deactivations that came off to the network at 21,000 over the past two quarters were at a slightly higher margin, slightly higher margin than some other connections that we had. And when you lose the 21,000 which is a significant component of our outstanding amount of connections, that tended to decrease margins as those came off of the network. And again as I mentioned, this quarter Q3 in particular was a first quarter where we had no revenue associated with those deactivations. In the prior two quarters, we had partial recognition for maybe a month or two in each quarter, some of those deactivations.

Regarding outlook for future quarters, it's our goal to structure particularly in the vending industry, our revenue targets and our billing to our customers to try to achieve a 40% margin. Given the certain marketing programs that we have put in place and began to drive strategic growth and market share. Quarter-to-quarter that could be impacted at 40% depending upon the volume and the type of marketing programs that we put in place.

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

<A – Dave DeMedio – USA Technologies, Inc.>: So, hopefully that answers your two questions.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Sure, that's fine. I'll get back in the queue.

<A – Dave DeMedio – USA Technologies, Inc.>: Okay, thanks Gary.

Operator: Thank you. Our next question comes from the line of Mike Latimore from Northland Capital.

<Q – Mike Latimore – Northland Securities, Inc.>: David, thanks a lot. How would you envision CapEx play on the fourth quarter here and is the new G9 sort of going to be the primary hardware sold in the quarter?

<A – Steve Herbert – USA Technologies, Inc.>: It will, Mike. It's, in terms of hardware, coming out of this company. By and large other than things that we might sell with ePort Mobile or ePort GO, that's the primary hardware platform that's going out from the ePort perspective. So we have the full benefit of that in this quarter.

<A – Dave DeMedio – USA Technologies, Inc.>: Can I add to that Steve?

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

<A – Dave DeMedio – USA Technologies, Inc.>: Mike, in addition, in terms of Q4 CapEx, it's really going to be dependent upon how many connections in Q4 comes from JumpStart. As you know, we're focused on achieving our goal for connections, which is – it's a meaningful amount of connections that we need to achieve for Q4. So if we have a similar quarter, in which 65% or a little over 65% come from JumpStart we'll probably have again a higher amount of cash used in the quarter for JumpStart. With that said, if you look at the cash used in Q3 for JumpStart on a per unit basis, you'll see a marked reduction in terms of the cash used on a per unit basis. So we're getting more connections now, under JumpStart now with similar dollars that we're spending.

<Q – Mike Latimore – Northland Securities, Inc.>: All right. Can you talk a little bit more about the strong start to this fourth quarter? Is this a couple of big customers or is it a broad-based demand and what does the gross margin look like on some of these newer orders?

<A – Steve Herbert – USA Technologies, Inc.>: Mike, I don't – I'm not quite sure we were able to hear you clearly there. Would you repeat your question please?

<Q – Mike Latimore – Northland Securities, Inc.>: Sure. Sorry about that. Yes. In terms, you've talked about strong demand starting in the fourth quarter here, can you talk a little bit about, is that couple of big customers or is it more broad-based across several customers? Then what does the gross margin look like on some of these new orders coming in?

<A – Steve Herbert – USA Technologies, Inc.>: Okay. Well, the customers – there are a couple of customers that make up a fair amount of the backlog. One would be the canteen operator that I mentioned and another would fall into the taxi space and by the way, Mike, not to digress, looking forward, one of the points I wanted to make that I didn't get you, when Dave was talking about JumpStart expenditures. Going forward, I think there is some intel that we provided in today's prepared remarks that kind of gives you an idea that JumpStart as a percentage of our whole may change. And if you particularly look at laundry and taxi and partners like AirVend just three examples that we talked about today. As you look out past Q – into Q4 and into next year, the dynamics with JumpStart will change. In addition to Dave's comment of getting more for less with the G9. So I wanted to add a little bit on that capital question, but also clarify on your question regarding the customers driving the backlog.

<Q – Mike Latimore – Northland Securities, Inc.>: Yes. Okay. Thank you.

Operator: Thank you. And our next question comes from the line of Alexander Renker from Sidoti.

<Q – Alexander Renker – Sidoti & Co. LLC>: Hi. Good morning.

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

<Q – Alexander Renker – Sidoti & Co. LLC>: This question's a little bit more general, but I'm curious, do you have a sense of what profitability would look like if at the expense of, say, growing taxi and laundry revenue, the company who're exclusively focused on vending. I guess that might be another way of asking. What are some of the start-up costs with the ramp in connections for taxi and vending given that it's a small component of revenue at this point?

<A – Dave DeMedio – USA Technologies, Inc.>: Well, Alex, thanks for the question. In terms of start-up costs and development costs, those taxi customers in particular that we're bringing on today came through our ePort QuickConnect service which is really a tool used for developers of other types of equipment other than vending machines to connect to our service. The [indiscernible] (37:36) is then on the OEM as those devices and the costs are on the OEMs to develop and integrate to our networks. So there is little start-up and development costs that we put into this application in particular, and in terms of market development, we are using third-party resellers to help us sell into that marketplace and utilizing the footprint of those resellers to help us distribute our products.

<A – Steve Herbert – USA Technologies, Inc.>: Well, Dave, if you don't mind if I add, in taxi and transportation as an example, Horizon is selling that solution for us. So not only do the systems integrators in the OEMs of the world do the development work to connect to our service, but we're also leveraging on the other end of the equation, we are leveraging our partners such as Horizon to use a big example to drive distribution in this space. So to answer your question, in a longwinded sort of way, the answer is no there aren't a lot of start-up costs, and it's really the same for laundry, where Setomatic Systems did their own integration work and certified on our system and they're the feet on the street out here all day every day, selling and installing the solution. So it's a great question, who're a small company like ours, but I can tell you that the lion's share of the resources go into our core market and that's vending. We're – with our direct sales force and our operations people, et cetera. They spend the majority of their time on that market.

<Q – Alexander Renker – Sidoti & Co. LLC>: Okay.

<A – Steve Herbert – USA Technologies, Inc.>: Okay. Thanks for question, I hope that helps.

<Q – Alexander Renker – Sidoti & Co. LLC>: Yes, it does, absolutely. Thank you.

Operator: Thank you. Our next question comes from the line of Jim Gentrup from Val Vista Capital Management.

<Q – Jim Gentrup – Ceiba Equity Research>: Good morning. Can you hear me, okay?

<A – Steve Herbert – USA Technologies, Inc.>: Hear you great.

<Q – Jim Gentrup – Ceiba Equity Research>: Just wanted to ask a couple of quick questions, the seasonality you guys were saying, you have in Q4 and have you already factored that into your guidance a little bit here or do you expect that strong seasonal fourth quarter as usual for connections?

<A – Steve Herbert – USA Technologies, Inc.>: We typically do have a strong fourth quarter and I don't think this fourth quarter should be any different in that regard. We're not counting on some giants fight, it's where we're headed with the quarter is somewhat predictable. So it will look much like past fourth quarters, but perhaps not that quite as pronounced.

<Q – Jim Gentrup – Ceiba Equity Research>: Yes, I'm just wondering like this year your gross adds every quarter have been sequentially higher. And I can't recall them here since I've been following you, you had the sequential jump each quarter. So I just want to kind of add that comment, I guess it seems like you're getting some momentum especially in the gross add but.

<A – Steve Herbert – USA Technologies, Inc.>: Well, I really picked up on that gaining momentum comment, that's very much what it feels like in the business right now. And just the way that even in some of my prepared comments I talked about how customers are looking at things here. The example of the Compass operator I gave. They decided to go to 60% of their base, from a small number to 60% of their base and that's a big move. Customers are starting to behave in different ways, which is and particularly in vending which is manifesting itself in our connections numbers and so forth.

<Q – Jim Gentrup – Ceiba Equity Research>: So the 12,000 that you talked about that were delayed or deferred in their licensing and transaction. Is that your typical delay or did you give them – was there some sort of competitive negotiation where you had to push it out a little bit more?

<A – Steve Herbert – USA Technologies, Inc.>: Our customers typically need a little time to get their devices in. We happened to give – as part of an overall transaction, we happened to give a couple of customers a little extra time to do so. And so it was part of a process with a key customer.

<Q – Jim Gentrup – Ceiba Equity Research>: Okay. But you did get activation fees from those 22,000 drag in Q3?

<A – Steve Herbert – USA Technologies, Inc.>: Was it 12,000, I really don't recall whether or not. I don't recall whether or not we did get the activation fees on those specific customers.

<Q – Jim Gentrup – Ceiba Equity Research>: No, I mean I guess I didn't ask the question correctly enough. The 22,000 gross adds that you put in and you did recognize the activation fee in Q3, didn't you?

<A – Steve Herbert – USA Technologies, Inc.>: We do. Generally, every connection particularly in vending has an activation fee. Some other connections those outside of vending like in taxi. We have different selling parameters with them. Some of those don't carry an activation fee. But generally, in places where we're able to charge an activation fee, we charged an activation fee. Each customer is a separate negotiation. So there may have been some of the vending connections that went out but didn't have an activation fee charge.

<Q – Jim Gentrup – Ceiba Equity Research>: Okay. I understand.

<A – Steve Herbert – USA Technologies, Inc.>: But in general, yes. And that was one of the reasons we mentioned for an improvement in equipment revenue activation fees for the quarter.

<Q – Jim Gentrup – Ceiba Equity Research>: Okay. And then last question if I may. The sales and marketing expenses have been pretty uniformly up throughout the year. Can you help us out a little bit thinking I mean you only have one quarter left I assume that the same impact or similar impact would be on Q4. But what about going forward, are you continuing to add, will we have another tick-up next fiscal year?

<A – Steve Herbert – USA Technologies, Inc.>: Jim, well, I think we've stated that we will continue to be aggressive in sales and marketing. And I don't think we're done adding resources in sales and marketing. So I think there – we haven't given guidance for next fiscal year, but I think generally, if you take away is that we're going to remain aggressive in sales and marketing, and that may mean adding resources in that department.

<Q – Jim Gentrup – Ceiba Equity Research>: All right. Thanks, guys.

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

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

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Steve, Dave, just for our purposes as we're trying to model Q4, I know you don't give direct guidance, but you kind of pulled back and said it's going to be challenging to get 40% year-over-year growth in adjusted EBTIDA and 25% growth in license and transaction revenues. What ranges are you kind of thinking here, so we at least have some idea of where we should bring our quarterly numbers into?

<A – Dave DeMedio – USA Technologies, Inc.>: Gary, it's a good question. Generally, obviously we're targeting to achieve those milestones. Conservatively though I think, if we have another Q4 that's somewhat in line with the Q3, you're probably looking at adjusted EBITDA in the range of 27% to 35% and in terms of license and transaction fee growth in the range of 20% to 23%.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Okay. All right. And then, do you guys put any number on the amount of connections that are in your pipeline? Is that something you've stated in the past or you could share with us?

<A – Steve Herbert – USA Technologies, Inc.>: Gary, I don't think we normally comment on that although, I think it's safe to say we went into Q4 with a healthy pipeline.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Okay. And then in terms of just looking at the net adds sequentially, I mean, it's obviously increased pretty dramatically, that's obviously pointing to number one more adoption correctly within your existing base, but going into some of these new vertical markets as well. Can you share some color on that?

<A – Steve Herbert – USA Technologies, Inc.>: Well, I think you hit the nail on the head. I can't remember the exact percentage. A large portion, David is 70 odd percent?

<A – Dave DeMedio – USA Technologies, Inc.>: 75%.

<A – Steve Herbert – USA Technologies, Inc.>: 75% of the connections to the quarter came from our existing base that will continue to be the case. I think, Gary, as we gain momentum in our customer base, I think using that one example, going from a relatively small number and making the decision to go to 60% penetration. These are new market dynamics that are very encouraging to us and support the fact that as we move into the fourth quarter and into next fiscal year that a lot of our business will come from the existing base. However, on the other hand, you got things just to use two examples that we talked about today, taxi and transportation as well as laundry picking up momentum. Our partners are picking up momentum in terms of the number of connections that they're bringing to us. So we're really hoping for a healthy mix of connection additions as we move forward.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Okay. Just to be clear here, because we're taking notes as you're talking, you added 2,000 new taxi connections this quarter. Was that from the existing business that you saw in the couple of quarters ago that I believe was in Washington, D.C. or was that a new taxi entity?

<A – Steve Herbert – USA Technologies, Inc.>: It was actually a new – at least, one if not two new partners.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: Okay. Two new partners – okay, and then you also said, my notes here again, you have 12,000 in the pipeline or 12,000 that couldn't get connected in the quarter, was that...?

<A – Steve Herbert – USA Technologies, Inc.>: I think what we said and Dave can elaborate on this if he wants to, but there were 12,000 connections that were out there that didn't impact. They were in the total and they haven't impacted – they didn't impact the third quarter.

<Q – Gary Prestopino – Barrington Research Associates, Inc.>: So, that's 12,000 connections...

<A – Steve Herbert – USA Technologies, Inc.>: Yes, that didn't impact, that went out earlier in the year, and they didn't impact Q3.

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

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

Operator: Thank you. And our next question comes from the line of Mike Latimore from Northland Capital.

<Q – Mike Latimore – Northland Securities, Inc.>: Hey, great. Just a couple other questions here. On the connections, that were not JumpStart. How many were kind of hardware sales versus say, situations where there was a software endpoint?

<A – Steve Herbert – USA Technologies, Inc.>: Well, I can say that two – well, Dave, you know what I'm going to let you answer that. You have your arms around that better. Did you hear the question?

<A – Dave DeMedio – USA Technologies, Inc.>: Yes, I did. Mike, roughly 80% of our connections came in vending. Of that, approximately – of the 100% of all our connections, 10% roughly were ePort sales, which is part of that 80% that went to vending. So, the remainder would've been under JumpStart. And then I'd mentioned that 10% came in each taxi that was non-JumpStart, and then the other 10% that came in amusement, laundry, and other market segments were non-JumpStart.

<Q – Mike Latimore – Northland Securities, Inc.>: Okay. Got it. And then, was EnergyMiser revenue, big in the quarter or low or?

<A – Dave DeMedio – USA Technologies, Inc.>: Miser was down year-over-year quarter comparatively. Miser is becoming less and less part of our business. It represented less than 3% in quarterly revenues this quarter, but from quarter to quarter, it was down and it was one of the reasons for part of the equipment revenue being down as well as some of the sequentially quarter-to-quarter and Miser sales have been relatively down and flat from prior year. So it's becoming less and less as part of the total revenue in the company.

<Q – Mike Latimore – Northland Securities, Inc.>: Okay. And just last on license and transaction gross margin, I know you have certain line of sight of getting to 40% periodically, but did you think this is the number in this quarter as sort of the bottom? Is this the floor – do you view it as a floor?

<A – Dave DeMedio – USA Technologies, Inc.>: Well, I view it as a floor in terms of vending connections, yes. As we look out into new fiscal years with some of these new market segments that we're getting into, and I think we got this call – this question on a previous earnings call, what will these new connections do in terms of mix of GP margins and we're going to get back to the market as these connections start become meaningful part of our overall connection base and start to materially impact the results, but in terms of where we are today and that the amount of vending connections we expect to continue to get and expect to remain a majority of our connections going forward, I would expect that this would be a bottom, yes.

<Q – Mike Latimore – Northland Securities, Inc.>: Sure. Thank you.

Operator: Thank you. And our next question is a follow-up from the line of Jim Gentrup from Val Vista Capital Management.

<Q – Jim Gentrup – Ceiba Equity Research>: Yes. The 2,000 deactivations you had this quarter, that's correct number, right, 2,000?

<A – Dave DeMedio – USA Technologies, Inc.>: Yes.

<Q – Jim Gentrup – Ceiba Equity Research>: Was that the same customer as previously – the same customer, the large customer that deactivated 21,000 is that the same one?

<A – Dave DeMedio – USA Technologies, Inc.>: Some of those connections, yes, came from that existing customer.

<Q – Jim Gentrup – Ceiba Equity Research>: Does that existing customer have any – I'm sorry, go ahead?

<A – Steve Herbert – USA Technologies, Inc.>: The majority of order deactivations that we've talked about came from the same customer.

<A – Dave DeMedio – USA Technologies, Inc.>: Correct.

<A – Steve Herbert – USA Technologies, Inc.>: I mean, everything else is the de minimis, it's just that one customer, and we're working our way through that customer, a little bit faster than we anticipated, which is both good and bad. But the good news is that, we're getting it behind us. The bad news is that, it gave us a little more headwind this year than we expected. But candidly I'd rather clean it out, get it behind us and move on. It's a one-time event.

<Q – Jim Gentrup – Ceiba Equity Research>: All right. Do they have many connections left?

<A – Steve Herbert – USA Technologies, Inc.>: They have about 6,000 left.

<Q – Jim Gentrup – Ceiba Equity Research>: Okay.

<A – Steve Herbert – USA Technologies, Inc.>: So, those will go away over time, and from a financial perspective, you have to think about it as, we have the majority of it behind us.

<A – Dave DeMedio – USA Technologies, Inc.>: And we had said, on the previous call, the amount of revenues associated with the remaining connections was approximately $175,000 per quarter. So, as Steve said, it's largely behind us.

<Q – Jim Gentrup – Ceiba Equity Research>: That number actually would be lower than now, obviously?

<A – Dave DeMedio – USA Technologies, Inc.>: Slightly lower, as they removed some of those, yes.

<Q – Jim Gentrup – Ceiba Equity Research>: All right. Thank you.

Operator: Thank you. And that concludes our question-and-answer session for today. I would like to turn the conference back to management, for any closing comments.

Veronica Rosa, Vice President-Communication & Investor Relations

That wraps it up for us. I think, if anybody has any follow-up calls, please call Investor Relations, 484-359-2138. And thanks so much for tuning in today.

Operator: Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program. And you may now disconnect. Everyone have a good day.