MONEY CENTERS OF AMERICA, INC.
Form 10-Q
November 19, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

OR

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

For the transition period from ____________________ to _____________________

Commission File No. 000-49723

Money Centers of America, Inc.
(Exact Name of Small Business Issuer as Specified in its Charter)

| | |
|---|---|
| Delaware | 23-2929364 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

700 South Henderson Road, Suite 325, King of Prussia, PA 19406
(Address of Principal Executive Offices)

(610) 354-8888
(Issuer's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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

Large Accelerated Filer [ ] Accelerated Filer [ ] Non-Accelerated Filer [ ] Smaller Reporting Company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.

Yes [ ] No [X]

As of November 19, 2008 31,751,832 shares of the registrant's common stock, par value $0.01 per share, were issued and outstanding.

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MONEY CENTERS OF AMERICA, INC.
QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008
INDEX TO FORM 10-Q

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MONEY CENTERS OF AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

| | September 30, 2008 (Unaudited) | December 31, 2007 |
|---|---|---|
| Current assets: | | |
| Restricted cash | $ 2,343,265 | $ 2,527,631 |
| Accounts receivable | 3,500 | 15,140 |
| Prepaid expenses | 1,182,824 | 354,562 |
| Other current assets | 84,602 | 19,351 |
| Total current assets | 3,614,191 | 2,916,684 |
| | | |
| Property and equipment, net | 549,347 | 812,832 |
| | | |
| Other assets: | | |
| Intangible assets, net | 163,625 | - |
| Software development, net | 1,435,235 | 1,320,175 |
| Deferred financing costs, net | 142,311 | 568,772 |
| Deposits | 55,397 | 55,397 |
| Total other assets | 1,796,568 | 1,944,344 |
| | | |
| Total assets | $ 5,960,106 | $ 5,673,860 |

LIABILITIES AND STOCKHOLDERS' DEFICIT

| | September 30, 2008 (Unaudited) | December 31, 2007 |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | $ 557,268 | $ 486,964 |
| Deferred revenue | 1,861,205 | 360,000 |
| Accrued interest | 99,125 | 112,377 |
| Accrued expenses | 927,192 | 791,976 |
| Settlement liabilities | 56,484 | - |
| Current portion of capital lease | 126,361 | 125,720 |
| Notes payable | 2,501,190 | 2,504,190 |
| Notes payable, related party | 5,490,864 | - |
| Lines of credit | 1,931,061 | 2,474,219 |
| Due to officer | 405,498 | 195,125 |
| Commissions payable | 684,855 | 638,825 |
| Total current liabilities | 14,641,103 | 7,689,396 |
| | | |
| Long-term liabilities: | | |
| Capital lease, net of current portion | 426,547 | 522,581 |
| Note payable, related party | - | 5,040,864 |
| Total long-term liabilities | 426,547 | 5,563,445 |

| | | | | |
|---|---|---|---|---|
| Total Liabilities | | 15,067,650 | | 13,252,841 |
| | | | | |
| Stockholders' Deficit: | | | | |
| Preferred stock; $.001 par value, 20,000,000 shares authorized | | | | |
| none issued and outstanding | | - | | - |
| Common stock; $.01 par value, 150,000,000 shares authorized | | | | |
| 31,751,832 shares issued and outstanding | | 317,518 | | 317,518 |
| Additional paid-in capital | | 16,823,508 | | 16,503,838 |
| Accumulated deficit | | (26,248,570) | | (24,400,337) |
| Total stockholders' deficit | | (9,107,544) | | (7,578,981) |
| | | | | |
| Total liabilities and stockholders' deficit | $ | 5,960,106 | $ | 5,673,860 |

See accompanying notes to unaudited consolidated financial statements.

1

MONEY CENTERS OF AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | THREE MONTHS ENDED SEPTEMBER 30, 2008 | 2007 | NINE MONTHS ENDED SEPTEMBER 30, 2008 | 2007 |
|---|---|---|---|---|
| Revenues | $ 2,832,830 | $ 2,194,391 | $ 7,484,332 | $ 6,573,827 |
| Cost of revenues | 2,033,084 | 1,718,472 | 5,831,086 | 5,151,128 |
| Gross profit | 799,746 | 475,919 | 1,653,246 | 1,422,699 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses (includes equity compensation of $319,670 and $816,979 for the nine months ended September 30, 2008 and 2007 respectively) | 577,334 | 608,538 | 2,019,528 | 2,189,796 |
| Depreciation and amortization | 205,121 | 224,327 | 640,517 | 670,031 |
| Total operating income (loss) | 17,291 | (356,946) | (1,006,799) | (1,437,128) |
| Other income (expenses): | | | | |
| Interest income | 7,066 | 5,187 | 19,849 | 14,339 |
| Interest expense | (785,487) | (390,635) | (1,498,321) | (1,119,415) |
| Total interest expense, net | (778,421) | (385,448) | (1,478,472) | (1,105,076) |
| Other income | - | 28,046 | 7,500 | 44,671 |
| Settlement expenses | - | (5,000) | - | (5,000) |
| Gain on sale of equipment | 15,522 | - | 25,476 | - |
| Gain on settlement of liabilities | - | - | 604,062 | - |
| Total other income | 15,522 | 23,046 | 637,038 | 39,671 |
| Net loss | $ (745,608) | $ (719,348) | $ (1,848,233) | $ (2,502,533) |
| Net loss per common share - basic and diluted | $ (0.02) | $ (0.02) | $ (0.06) | $ (0.08) |
| Weighted Average Common Shares Outstanding -Basic and diluted | 31,751,832 | 30,771,832 | 31,751,832 | 30,726,318 |

See accompanying notes to unaudited consolidated financial statements.

2

MONEY CENTERS OF AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (1,848,233) | $ (2,502,533) |
| Adjustments used to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 640,517 | 670,031 |
| Carrying value of equipment sold | 113,294 | - |
| Gain on settlement of liabilities | 604,062 | - |
| Issuance of warrants for services | 259,710 | - |
| Issuance of common stock for services | - | 990 |
| Issuance of stock options for services and stock options vested | 59,960 | 815,989 |
| Changes in operating assets and liabilities: | | |
| Increase (decrease) in: | | |
| Accounts payable | 70,305 | 43,592 |
| Accrued interest | (13,252) | 38,951 |
| Accrued expenses | 380,216 | (52,330) |
| Settlement liabilities | 56,484 | - |
| Deferred revenue | 1,501,205 | - |
| Commissions payable | 46,030 | 39,917 |
| (Increase) decrease in: | | |
| Prepaid expenses | (828,262) | (51,721) |
| Other current assets | (65,251) | (5,016) |
| Accounts receivable | 11,640 | 13,289 |
| Net cash provided by (used in) operating activities | 988,425 | (988,841) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (61,926) | (45,141) |
| Cash paid for acquisition and intangible assets | (280,625) | (159,458) |
| Net cash used in investing activities | (342,551) | (204,599) |
| Cash flows from financing activities: | | |
| Net change in lines of credit | (1,147,220) | (8,776) |
| Payments on capital lease obligations | (95,393) | (17,592) |
| Advances to officer | (34,627) | (66,427) |
| Proceeds from notes payable | 450,000 | 81,329 |
| Payments on notes payable | (3,000) | (16,402) |
| Exercise of stock options and warrants | - | 6,674 |
| Net cash used in financing activities | (830,240) | (21,194) |
| NET DECREASE IN CASH | (184,366) | (1,214,634) |

| | | | | |
|---|---|---|---|---|
| CASH, beginning of period | | 2,527,631 | | 4,619,383 |
| | | | | |
| CASH, end of period | $ | 2,343,265 | $ | 3,404,749 |
| | | | | |
| Supplemental disclosure of cash flow information: | | | | |
| | | | | |
| Cash paid during the period for interest | $ | 1,061,573 | $ | 1,119,416 |
| Cash paid during the period for taxes | $ | 133,550 | $ | - |
| | | | | |
| Supplemental disclosure on non-cash investing and financing activities: | | | | |
| | | | | |
| Reduction of loan payable officer in exchange for related accrual | $ | 245,000 | $ | 175,000 |

See accompanying notes to unaudited consolidated financial statements.

3

MONEY CENTERS OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 AND AS AT DECEMBER 31, 2007

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Money Centers of America Inc. (the "Company" or "MCA"), a Delaware corporation, was incorporated in October 1997. The Company is a single source provider of outsourced cash access services, OnSwitch TM Transaction Management System, and the Omni Network TM. The Company has combined advanced technology with personalized customer services to deliver ATM, Credit Card Advance, POS Debit, Check Cashing Services, CreditPlus (outsourced marker services), cash access host program, customer data sharing and merchant card processing.

### (A) Basis of Presentation

The unaudited consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. The Company and its subsidiaries have fiscal years ending on December 31.

### (B) Principles of Consolidation

The Company consolidates its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

### (C) Use of Estimates

In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods presented. Actual results may differ from these estimates.

Significant estimates during 2008 and 2007 include depreciable lives on equipment, the valuation of stock options granted for services, the value of warrants issued in connection with debt related financing, valuation of intangible assets not having finite lives and the valuation allowance for deferred tax assets since the Company had continuing operating losses.

### (D) Reclassification

Certain prior period balances have been reclassified to conform to the current period’s financial statement presentation. These reclassifications had no impact on previously reported results of operations or stockholders’ deficit.

### (E) Cash and Cash Equivalents and Compensating Balances

For purposes of the statements of cash flows, the Company considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents.

The Company minimizes its credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The balance exceeded the federally insured limit by $2,921,873 and $3,466,785 at September 30, 2008 and December 31, 2007, respectively. In addition, the Company maintains a significant amount of cash at each of the casinos. Management believes that the Company has controls in place to safeguard these on-hand amounts, and that no significant credit risk exists with respect to cash.

Additionally, the Company had $30,000 maintained under a compensating balance agreement. The $30,000 is retained due to potential dishonorment of bad checks that are unforeseen. There is an informal agreement between our bank and our lender that requires this compensating balance agreement.

(F) Restricted Cash

Restricted cash is the balance of cash that is in the Company's bank accounts and network that is used as collateral for our asset based lender (See Note 3). The Company does not have access to this cash unless there is an amount over and above the required amount of collateral of $5,800,000. In order to pay operating expenses, the Company requests that the asset based lender transfer funds into the Company's unrestricted cash accounts. The restricted cash balance was $2,343,265 and $2,527,631 at September 30, 2008 and December 31, 2007, respectively.

(G) Accounts Receivable

Accounts receivable arise primarily from ATM, credit card advances and check cashing services provided at casino locations. Concentration of credit risk related to ATM and credit card advances are limited to the processors who remit the cash advanced back to the Company along with the Company's allocable share of fees earned. The Company believes these processors are financially stable and no significant credit risk exists with respect to accounts receivable arising from credit card advances. Accordingly, no allowance was considered necessary at September 30, 2008 and December 31, 2007.

(H) Prepaid Expenses

Prepaid Expenses are comprised of various insurance policies, annual service and maintenance contracts, prepaid commissions and expenses incurred in connection with the installation and operations for a new casino customer. Prepaid insurance policies and service and maintenance contracts are paid for up-front and expensed over the term of the policy or contract. In connection with the signing of a contract with a casino customer in 2004, the Company advanced the customer commissions in exchange for interest to accrue monthly on the outstanding balance of the advanced commission at a rate of 10% per annum. Additionally, the Company incurred various expenses in connection with the installation of equipment for operations at four new casino locations, including costs of equipment and hardware, travel, supplies and commissions paid to the Company’s sales staff for the signing of a contract with a new casino customer.

At September 30, 2008, the balance of prepaid expenses was $1,182,824. Of this balance, $236,940 represents prepaid insurance and service and maintenance contracts, $300,657 represents advanced commissions to a casino customer and $645,227 represents expenses related to the installation and operations for a new casino customer.

(I) Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred. Property and equipment consists primarily of cash access devices and computer equipment. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which ranges from five to seven years.

(J) Long Lived Assets

The Company accounts for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell the asset. There were no impairment charges taken during the periods ended September 30, 2008 and December 31, 2007.

MONEY CENTERS OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 AND AS AT DECEMBER 31, 2007

(K) Intangibles and Related Impairment

Based on the discounted estimated cash flows of the Company over the remaining amortization period, the Company's carrying values of the assets would be reduced to their estimated fair values. Goodwill is assumed to have an indefinite life pursuant to statement of Financial Accounting Standards No. SFAS 142, "Goodwill and Other Intangible Assets" and accordingly is not amortized but subject to periodic impairment tests. Acquired contract rights are considered to have a finite life, pursuant to SFAS 142, to be amortized over the period the asset is expected to contribute to future cash flows. The Company expects the period to be 1 to 4 years. The contract rights will also be subject to periodic impairment tests.

(L) Internal Use Software and Website Development Costs

The Company has adopted the provisions of AICPA Statement of Position ("SOP") 98-1, "Accounting for the Costs of Software Developed or Obtained for Internal Use", and Emerging Issues Task Force ("EITF" ) Consensus #00-2. "Accounting for Website Development Costs." The type of costs incurred by the Company in developing its internal use software and Website include, but are not limited to payroll-related costs (e.g. fringe benefits) for employees who devote time to the internal use computer software or Website project, consulting fees, the price of computer software purchased from third parties and travel expenses incurred by employees or consultants in their duties directly associated with developing the software. These costs are either expensed or capitalized depending on the type of cost and the stage of development of the software and Website.

The Company makes ongoing evaluations of the recoverability of its capitalized internal use software and Web site by comparing the amount capitalized for each module or component of software to their estimated net realizable values. If such evaluations indicate that the unamortized costs exceed the net realizable values, the Company writes off the amount by which the unamortized costs exceed the net realizable values. At September 30, 2008 and 2007, no such write-offs were required.

At September 30, 2008, the net book value of capitalized software was $1,435,235. Of this total, $1,429,094 represents software development cost related to the development of the Company’s OnSwitch™ Transaction Management System. Software costs related to OnSwitch™ are not currently being amortized, The Company expects to begin amortizing these cost in the fourth quarter of 2008 when OnSwitch™ is fully implemented with one of our casino customers. Amortization expense of non-OnSwitch™ related software costs for the periods ended September 30, 2008 and 2007 was $1,939 and $4,579, respectively.

(M) Deferred Financing Costs

Deferred financing costs are capitalized and amortized over the term of the related debt. At September 30, 2008, the gross amount of deferred financing costs was $1,299,183 and related accumulated amortization was $1,156,872. At September 30, 2008 the Company reflects in the accompanying consolidated balance sheet net deferred financing costs of $142,311. Amortization of deferred financing costs was $426,461 and $435,297 at September 30, 2008 and 2007, respectively.

MONEY CENTERS OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 AND AS AT DECEMBER 31, 2007

(N) Revenue Recognition

The Company follows the guidance of the Securities and Exchange Commission's Staff Accounting Bulletin No. 104 for revenue recognition. In general, the Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. The following policies reflect specific criteria for the various revenue streams of the Company:

(1) ATM's and Credit Cards

Fees earned from ATM and credit card advances are recorded on the date of transaction.

(2) Check Cashing

Revenue is recorded from fees on check cashing services on the date the check is cashed. If a customer's check is returned by the bank on which it is drawn, the full amount of the check is charged as bad debt loss. The check is subsequently resubmitted to the bank for payment. If the bank honors it, the amount of the check is recognized as a negative bad debt expense. Based on the quick turnaround of the check being returned by the bank on which it is drawn and the resubmission to the bank for payment, the Company feels this method approximates the allowance method, which is a U.S. Generally Accepted Accounting Principle. Based upon past history no allowance was considered necessary at September 30, 2008 and 2007, respectively.

(3) Deferred Revenue

In December 2007, the Company licensed its internally developed transaction management system, OnSwitch™, to a customer. The Company has received payments of $915,705 of which $361,205 are recorded as deferred revenue until the software is fully installed and operational, and $254,500 has been recorded as revenue from Hardware for equipment sold to the customer. In addition, the Company has recognized as revenue $300,000 of Implementation Fees. The Company expects to recognize the remaining deferred revenue in the fourth quarter of 2008.

In July 2008, the Company licensed its internally developed transaction management system, OnSwitch™, to a new customer. The Company received payments of $1,974,000 of which $1,500,000 are recorded as deferred revenue until the software is fully installed and operational, and $474,000 has been recorded as revenue from Hardware for equipment sold to the customer.

(O) Cost of Revenues

The cost of revenues primarily includes commissions paid, non management wages, employee benefits, bad debts, rents paid to contract lessors, transaction processing costs, cash replenishment fees, non-capitalizable operating lease fees for ATM's and repairs and maintenance of ATM's.

(P) Advertising

In accordance with Accounting Standards Executive Committee Statement of Position 93-7, ("SOP 93-7") costs incurred for producing and communicating advertising of the Company, are charged to operations as incurred. Advertising expense for the periods ended September 30, 2008 and 2007 were $8,734 and $20,868, respectively.

7

MONEY CENTERS OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 AND AS AT DECEMBER 31, 2007

(Q) Income Taxes

The Company accounts for income taxes under the Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("Statement 109"). Under Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period, which includes the enactment date.

(R) Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosures of information about the fair value of certain financial instruments for which it is practicable to estimate the value. For purpose of this disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The carrying amounts of the Company's short-term financial instruments, including accounts receivable, accounts payable and accrued expenses, commissions payable, notes payable, line of credit and due to related party approximate fair value due to the relatively short period to maturity for these instruments.

(S) Earnings per Share

In accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share", basic earnings per share is computed by dividing the net income (loss) less preferred dividends for the period by the weighted average number of shares outstanding. Diluted earnings per share is computed by dividing net income (loss) less preferred dividends by the weighted average number of shares outstanding including the effect of share equivalents. Common share equivalents consist of shares issuable upon the exercise of certain common stock purchase warrants, stock options, and convertible preferred stock. The Company has excluded these common share equivalents from its computation of earnings per share due to their antidilutive effect as the Company has reflected a net loss at September 30, 2008 and 2007, respectively. Accordingly, the basic and diluted EPS are the same.

At September 30, 2008 and 2007 there were 13,538,280 and 13,213,280 shares of issuable common stock underlying the options, warrants and convertible debt securities, respectively.

MONEY CENTERS OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 AND AS AT DECEMBER 31, 2007

The following table summarizes all common stock equivalents outstanding at September 30, 2008 and 2007, respectively.

| | 2008 | 2007 |
|---|---|---|
| Common stock options | 9,318,280 | 9,393,280 |
| Common stock warrants | 4,220,000 | 3,820,000 |
| Convertible notes payable | - | - |
| Total Common Stock Equivalents | 13,538,280 | 13,213,280 |

(T) Stock Based Compensation

The Company applies the provisions of SFAS No. 123(R), "Share-Based Payment," under the modified prospective method. SFAS No. 123(R) eliminates accounting for share-based compensation transactions using the intrinsic value method prescribed under APB Opinion No. 25 "Accounting for Stock Issued to Employees," and requires instead that such transactions be accounted for using a fair-value-based method. Under the modified prospective method, the Company is required to recognize compensation cost for share-based payment to employees based on their grant date fair value from the beginning of the fiscal period in which the recognition provisions are first applied.

During the first nine months of 2008 and 2007, the Company granted 400,000 and 1,265,000 options, respectively to employees and directors that were accounted for pursuant to SFAS No. 123(R).

During the first nine months of 2008 and 2007, the Company granted 600,000 and 900,000 warrants, respectively to non-employees that were accounted for pursuant to SFAS No. 123(R) and 123.

See detailed discussion of stock based compensation in Note 7.

2. UNAUDITED INTERIM INFORMATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The accompanying unaudited consolidated financial statements for the interim periods reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the unaudited consolidated financial position, operating results and cash flows for the periods presented. These unaudited consolidated financial statements should be read in conjunction with the financial statements and related footnotes for the year ended December 31, 2007 and notes thereto contained in the annual report on Form 10-KSB as filed with the Securities and Exchange Commission. The results of operations for the nine months ended September 30, 2008 are not necessarily indicative of the results for the full year ending December 31, 2008.

MONEY CENTERS OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 AND AS AT DECEMBER 31, 2007

3. NOTES PAYABLE

Notes payable at September 30, 2008 and December 31, 2007 consisted of the following:

| | | September 30, 2008 | December 31, 2007 |
|---|---|---|---|
| In December 2006 the Company borrowed an aggregate $4,750,000 from a related party, Baena Advisors, LLC ("Baena"), evidenced by a promissory note. Baena is owned by Sean Wolfington, the brother of our Chief Executive Officer and Chairman. Interest on the note is payable monthly and bears interest at 30-day LIBOR plus 13% per annum. In April 2007, the Lender paid off a bridge loan in the amount of $290,864 which included principal and all accrued interest, and added it to the principal amount of this note. Monthly payments consist of interest only with the full amount of the note due on February 28, 2009.<br><br>As of September 30, 2008 the Company is in default under the December 28, 2006 Credit and Security Agreement with Baena as the result of our failure to maintain the required minimum borrowing base. In August 2008, the Company entered into an agreement with Baena pursuant to which Baena agreed, retroactive to January 1, 2008, to waive its noncompliance with this covenant provided that, upon receipt of notice from Baena of a notice of noncompliance in any fiscal quarter (but only once per quarter) the Company issue to Baena warrants to purchase 150,000 shares of common stock at an exercise price of $0.01 per share and accrue a $150,000 fee payable at maturity or in the alternative pay an immediate fee equal to interest on the outstanding balance for 90 days at the rate of 5% per year. In connection with the execution of this agreement, the Company agreed to issue to Baena warrants to purchase 450,000 shares of common stock and accrued $450,000 in fees with respect to the first three quarters of 2008. | $ | 5,490,864 | 5,040,864 |
| In December 2006 the Company borrowed an aggregate $2,525,000 from Mercantile Capital, LLP, as evidenced by a promissory note. Interest on the note is payable monthly and bears interest at a rate of 12.75% per annum. Monthly payments consist of interest only with the full amount of the note due on December 31, 2008. | | 2,498,190 | 2,498,190 |
| In June 2007 the Company borrowed $9,000 from a family member of our chief executive officer. The note bears interest at | | 3,000 | 6,000 |

| | | | | |
|---|---|---|---|---|
| 8% per annum and is payable monthly, beginning June 1, 2007. | | | | |
| Total Notes Payable | $ | 7,992,054 | $ | 7,545,054 |

MONEY CENTERS OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 AND AS AT DECEMBER 31, 2007

At September 30, 2008, the Company had the following outstanding accrued interest payable for all debt instruments:

| | | |
|---|---|---|
| Interest accrued on Notes Payable and Lines of Credit | $ | 94,730 |
| Interest accrued on non convertible related note | | 4,395 |
| Total accrued interest payable, Convertible notes | $ | 99,125 |

4. CAPITAL LEASES

During the third quarter of 2007, the Company refinanced its outstanding capital leases with its ATM machine lender. Obligations under capital lease of $692,883 are now payable in sixty monthly installments of $15,000 beginning July 2007. The imputed interest rate on this lease refinance is 10.81%

Capital lease obligations at September 30, 2008 and December 31, 2007 consisted of the following:

| | | September 30, 2008 | December 31, 2007 |
|---|---|---|---|
| Obligation under capital lease, imputed interest rate at 10.81%; due June 2012; collateralized by equipment | $ | 552,908 | 648,301 |
| Less: current maturities | | (126,361) | (125,720) |
| Long term obligation, net of current portion | $ | 426,547 | 522,581 |

Future minimum lease payments for equipment acquired under capital leases at September 30, 2008 are as follows:

| | | |
|---|---|---|
| 2008 | $ | 50,072 |
| 2009 | | 200,288 |
| 2010 | | 200,288 |
| 2011 | | 200,288 |
| 2012 | | 100,143 |
| Total minimum lease payments | | 751,079 |
| Less amount representing interest | | (198,171) |
| Present value of net minimum lease | | 552,908 |
| Less current portion | | (126,361) |
| | $ | 426,547 |

5. DUE TO OFFICER

During the first quarter of 2008, the Company issued a note to its CEO totaling $245,000. The note was issued in payment of the CEO's 2007 guaranteed bonus of $175,000 and $70,000 of wages the CEO deferred in 2007. This loan bears interest at 30-day LIBOR plus 11% per annum, is unsecured and due on demand. Previously issued loans from the CEO bear interest at 10% per annum, are unsecured and due on demand. The outstanding principal and related accrued interest balance at September 30, 2008 was $409,893. Of the total, $4,395 represented accrued interest payable for one month at September 30, 2008.

MONEY CENTERS OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 AND AS AT DECEMBER 31, 2007

6. LINES OF CREDIT

Lines of credit at September 30, 2008 and December 31, 2007 consisted of the following:

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| Line of credit, interest is payable monthly at 9% per annum, the line is unsecured and due on demand. This line has been established with one of the Company's casino customers. This line is currently being disputed and there has been an interim reward issued. See Note 8 (4) and Note 12. | $ - | $ 922,827 |
| Line of credit, non-interest bearing, the line is unsecured and due on demand. This line has been established with one of our casino customers. | 336,474 | 761,175 |
| Line of credit, the line is unsecured and due on demand. The Company pays a fixed stated amount of interest totaling $1,000 per month. The payments are recorded and charged to interest expense. This line has been established with one of our casino customers. At June 30, 2008, the Company had recorded related accrued interest payable of $1,000 in connection with this line of credit. | - | 790,217 |
| Line of credit, non-interest bearing, the line is unsecured and due on demand. This line has been established with one of our casino customers. | 1,594,587 | - |
| Total Lines of Credit | $ 1,931,061 | $ 2,474,219 |

7. STOCKHOLDERS' DEFICIT

Nine Months Ended September 30, 2008

(A) Common Stock Issuances

(1) Cash

None

(2) Services

None

(3) Exercise of Options/Warrants

None

(B) Accrued Penalty Shares

At September 30, 2008, pursuant to the terms of a prior common stock offering with registration rights, the Company has accrued penalties in the amount of 142,500 shares with respect to a delay in registering shares sold in a prior common stock offering. The Company has valued these shares at $81,048 based on the quoted closing trading price every two weeks when the penalty accrued. The fair value of the penalty has been recorded as a component of accrued expenses.

MONEY CENTERS OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 AND AS AT DECEMBER 31, 2007

(C) Stock Options

The Company follows SFAS No. 123(R) for all share based payment awards. The fair value of each option or warrant granted is estimated on the date of grant using the Black-Scholes option pricing model. The following is a summary of all stock option and warrant activity with employees and non-employees during the first two quarters of 2008:

(1) Option Grants

In April 2008, 400,000 options at an exercise price of $0.01 per share were issued to our non-employee directors according to their compensation arrangements. The Company valued these shares using the Black-Scholes valuation model at $59,960 and accordingly booked a non-cash compensation expense in the same amount.

(2) Options/ Warrants Exercised

None

(3) Option Forfeitures

None

(4) Weighted Average Assumptions for 2008 Option Grants

None

Employee stock option activity for the nine months ended September 30, 2008 are summarized as follows:

| | Number of Shares | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at December 31, 2007 | 8,918,280 | $0.12 |
| Granted | 400,000 | 0.01 |
| Exercised | - | - |
| Cancelled/Expired | - | - |
| | | |
| Outstanding at September 30, 2008 | 9,318,280 | $0.13 |

The following table summarizes the Company's employee stock options outstanding at September 30, 2008:

Options Outstanding

| Range of Exercise Price | Number | Weighted Average Remaining Life | Weighted Average Exercise Price |
|---|---|---|---|
| 0.01 | 7,125,780 | 5. 26-9.52 | 0.01 |
| 0.23 - 0.26 | 727,500 | 8.13-9.23 | .024 |
| 0.38 - 0.42 | 1,065,000 | 5.71-8.46 | 0.39 |
| 0.70 - 0.77 | 212,500 | 5.59-6.30 | 0.75 |
| 2.00-2.28 | 187,500 | 4.67-5.09 | 2.11 |
| | 9,318,280 | | 0.13 |

MONEY CENTERS OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 AND AS AT DECEMBER 31, 2007

At September 30, 2008, 9,318,280 stock options are exercisable with a weighted average exercise price of $.13.

(D) Warrants

(1) Warrant Grants – Consultants

In July 2008, warrants to purchase 600,000 shares of the Company's common stock at an exercise price of $0.01 per share were granted to Baena Advisors, LLC pursuant to a Second Loan Modification and Reaffirmation Agreement executed in July 2008. The Company valued these shares at $131,940, the fair market value based on the Black-Scholes model, and accordingly recorded a noncash compensation expense in the same amount.

(2) Warrants Vested - Consultants

In January 2008, warrants to purchase 300,000 shares of the Company's common stock at an exercise price of $0.37 per share previously issued to a consultant for services rendered vested. The Company valued these shares at $127,770, the fair market value based on the Black-Scholes model, and accordingly recorded a noncash compensation expense in the same amount.

(3) Warrant Forfeitures

In June 2008, 75,000 warrants held by a non-related individual with an exercise price of $1.00 per share expired.

In June 2008, 125,000 warrants held by a non-related party with an exercise price of $4.00 per share expired.

Warrant activity for the period ended September 30, 2008 is summarized as follows:

| | Number of Shares | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at December 31, 2007 | 3,820,000 | $0.37 |
| Granted | 600,000 | 0.01 |
| Exercised | - | - |
| Cancelled/Expired | 200,000 | - |
| | | |
| Outstanding at September 30, 2008 | 4,220,000 | $0.15 |

Warrants Outstanding

| Range of Exercise Price | Number | Weighted Average Remaining Life | Weighted Average Exercise Price |
|---|---|---|---|
| 0.01 | 2,877,500 | 4.03-9.76 | 0.01 |
| 0.30-0.37 | 870,000 | 0.95-8.34 | 0. 36 |

| | | | |
|---|---|---|---|
| 0.40 | 15,000 | 7.01 | 0.40 |
| 0.44 | 15,000 | 7.01 | 0.44 |
| 0.47-0.51 | 30,000 | 6.92-7.01 | 0.49 |
| 0.70 | 300,000 | 8.34 | - |
| 2.40 | 112,500 | 0.07-4.50 | 2.40 |
| | 4,220,000 | | |

MONEY CENTERS OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 AND AS AT DECEMBER 31, 2007

All outstanding warrants are exercisable at September 30, 2008, with the exception of 300,000 warrants issued to a consultant of the Company.

## 8. COMMITMENTS AND CONTINGENCIES

### (1) Operating Leases

In connection with converting all of the Available Money ATM's, the Company now pays rent to various mall properties where it has ATM machines. These monthly rents average $26,700 per month.

The Company is party to a 39-month lease agreement pursuant to which it rents office space in Pennsylvania at a monthly rent of $2,635. This Lease expired February 2008 and the Company is now on a month to month lease.

The Company's total rent expense under operating leases was $289,380 and $264,668 for the nine months ended September 30, 2008 and 2007, respectively.

### (2) Casino Contracts

The Company operates at a number of Native American owned gaming establishments under contracts requiring the Company to pay a rental fee to operate at the respective gaming locations.

Typically, the fees are earned by the gaming establishment over the life of the contract based on one of the following scenarios:

(A) A dollar amount, as defined by the contract, per transaction volume processed by the Company.

(B) A percentage of the Company's profits at the respective location.

As of September 30, 2008 the Company has recorded $288,469 of accrued commissions on casino contracts.

In the 2nd quarter of 2008, the Company signed a multi-year contract with the Ho-Chunk Nation in Black River Falls, WI, to provide cash access services and related financial and consulting services to Ho-Chunk's gaming facilities. As part of the contract, the Ho-Chunk Nation has the option to purchase the licensing rights to our OnSwitch™ Transaction Management System.

It is anticipated that prior to the end of the initial term the full installation of the OnSwitch™ Transaction Management System will be completed and, according to the agreement, the relationship between the parties will be governed by the License, Implementation and Support Agreement.

Pursuant to the contracts, the Native American owned casinos have not waived their sovereign immunity.

MONEY CENTERS OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 AND AS AT DECEMBER 31, 2007

(3) Employment Agreements

(A) CEO

(1) Employment Agreement

In January 2004, the Company entered into a five-year employment agreement with its Chairman, President and Chief Executive Officer. In addition to an annual salary of $350,000 per year (subject to annual increases at the discretion of the Board of Directors ) (the "Base Salary"), the employment agreement provides for a $200,000 signing bonus, a guaranteed bonus equal to 50% of his Base Salary in any calendar year (the "Guaranteed Bonus" ) and a discretionary incentive bonus of up to 50% of his Base Salary in any calendar year pursuant to a bonus program to be adopted by the Board of Directors (the "Incentive Bonus"). Pursuant to his employment agreement, the officer is entitled to fringe benefits including participation in retirement plans, life insurance, hospitalization, major medical, paid vacation, a leased automobile and expense reimbursement. At September 30, 2008, the Company had accrued $131,250 for bonus.

(2) Commissions Payable

The Company pays sales commissions to sales persons closing various contracts. The CEO was paid $26,958 in sales commissions for the first nine months of 2008.

(B) CFO/COO

In March 2007, the Company entered into an amended and restated employment agreement, dated March 1, 2007 which amended and restated the employment agreement, dated June 14, 2005, by and between the Company and its Chief Financial Officer. Mr. Walsh shall serve as the Company's Chief Financial Officer and Chief Operating Officer.

The term of the Employment Agreement was retroactive to December 31, 2006 and continues until the earlier of CFO's death or termination by either the Company or the CFO. The CFO/COO annual salary shall be no less than $170,000. Upon termination of the Employment Agreement within six (6) months following a change in control of the Company either by the Company without cause or by the CFO/COO, the CFO/COO will receive severance pay equal to one year's salary.

In addition, the CFO was granted options to purchase 500,000 shares of the Company's common stock with an exercise price of $0.38 per share. The Options have a term of ten years and are exercisable as follows: (i) options to purchase 250,000 shares of the Company's common stock are exercisable on July 1, 2007; and (ii) options to purchase 250,000 shares of the Company's common stock are exercisable on December 31, 2007, in each case as long as the CFO is employed by the Company. The Options are immediately exercisable following a change in control of the Company. If CFO's employment by the Company is terminated by the Company without good cause or CFO elects early termination with good reason, all unvested Options automatically vest.

(4) Litigation

None

9. CUSTOMER CONCENTRATIONS

For the nine months ended September 30, 2008, approximately 41% of total revenues were derived from operations at one full service casinos. Two other customers represented approximately 30% of our total revenues for the nine months ended September 30, 2008.



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MONEY CENTERS OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 AND AS AT DECEMBER 31, 2007

For the year ended December 31, 2007, approximately 63% of total revenues were derived from operations at two full service casinos. Two other customers represented approximately 20% of our total revenue for the year ended December 31, 2007.

## 10. CASH RENTAL PROGRAM AND RELATED INTEREST EXPENSE

Included in interest expense are monies owed to an unrelated vendor for interest charges. The interest is based on the amount of cash in the Company’s Available Money ATM machines and network and is calculated on a daily basis. The balance of this cash funded by the bank in the Company’s ATM machines at September 30, 2008 was approximately $404,000. The interest rate on the $404,000 is prime minus 5/8. Effectively the Company rents this cash. The Company does not reflect this cash as an asset or the loan as a liability on its balance sheet at September 30, 2008. Interest expense from this cash was $53,731 for the nine months ended September 30, 2008.

## 11. GOING CONCERN

The accompanying unaudited consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has a working capital deficit of $11,026,913, a stockholders' deficit of $9,107,544 and an accumulated deficit of $26,248,570 at September 30, 2008. The Company also reflected a net loss of $1,848,233 for the nine months ended September 30, 2008. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

Management is in the process of implementing its business plan. Additionally, management is actively seeking additional sources of capital, but no assurance can be made that capital will be available on reasonable terms. Management believes the actions it is taking allow the Company to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

CAUTIONARY STATEMENT FOR FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expect," "plan," anticipate," believe," estimate," continue," or the negative of such terms or other similar expressions. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those included in our Annual Report on Form 10-KSB filed on April 15, 2008. The following discussion should be read in conjunction with our Consolidated Financial Statements and related Notes thereto included elsewhere in this report.

Item 2 - Management's Discussion and Analysis or Plan of Operation

The following discussion and analysis of the results of operations, financial condition and liquidity should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this report. These statements have been prepared in accordance with accounting principles generally accepted in the United States. These principles require us to make certain estimates, judgments and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and related liabilities. On a going forward basis, we evaluate our estimates based on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the result of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

History

We are a single source provider of cash access services to the gaming industry. We combine advanced technology with personalized customer services to deliver ATM, credit card advance, POS debit card advance, Check Cashing Services and CreditPlus marker services on an outsourcing basis to casinos, license our OnSwitchTM transaction management system to casinos and merchant card processing.

We were formed as a Delaware corporation in 1997. Prior to March 2001, we were a development company focusing on the completion of a Point of Sale ("POS") transaction management system for the gaming industry. In March 2001, we commenced operations with the launch of the POS system at the Paragon Casino in Marksville, LA.

Current Overview

In our last quarterly filing we noted that 2008 was developing into a year of significant change domestically and internationally. We also noted that the weakening economy, industry consolidation, and falling stock prices for the gaming companies would create immense opportunity for Money Centers of America. In the third quarter of 2008 there was not only change, but complete shifts in the landscape of the global economy. Although the current economic climate poses challenges to all businesses, we believe that this environment has magnified the opportunities and market position for Money Centers of America.

Our core business of providing outsourced cash access services to the Gaming Industry continues to be strong and we expect to experience continued growth in this segment of our market. Toward the end of the third quarter, the opportunities provided by our OnSwitch™ Transaction Management System have transformed into recognized revenue and positive operating cash flow. As part of the signing of a contract with a new customer we also completed our Phase One installation at four new casino locations that will contribute substantial revenue growth for the fourth quarter and beyond. With every new OnSwitch™ installation we challenge the status quo and continue what we believe will be the trend towards a paradigm shift in the Gaming Industry with "needle moving" economics for the Gaming Operators.

The continuing economic trends place an even higher value on the already compelling financial benefits of OnSwitch™, in addition to the value and peace of mind from being the most reliable payment processing technology that already drives one of every six ATMs in the entire US,. The result is that Money Centers of America has never been better positioned to break through the barriers to realizing our true potential for explosive growth.

We still have challenges associated with our size and current capitalization. The biggest barriers to our market penetration continue to be centered around the Gaming Industry's strong hold to maintain the status quo due to the fear of the unknown and the "nobody ever got fired for buying IBM" mentality of the middle management of our prospective customers. We are currently negotiating extensions to our credit facilities so that the positive impact from our new business, and the resulting positive cash flow, will be reflected in our year-end financials allowing us to secure more competitive and traditional credit facilities.

We anticipate that the challenges and margin erosion that has plagued our competitors who only provide outsourced services will not only continue but will escalate. For several years we have predicted that companies providing cash access services to the gaming industry would face some unique challenges in the next ten years. We stated that one reason was that historically; providers of cash access services to the gaming industry had enjoyed high cash flow margins that were generally higher than experienced by other industries. Growing competition and the maturing of the market has resulted in a decline in these margins as companies have begun marketing their services based on price rather than innovation or value added services. We also believed these changes to the landscape would ultimately lead to industry consolidation. As we now know many companies in the industry have merged, been acquired or have recapitalized in order adapt to the change. After the recent consolidations, we are now one of only two public stand alone, single source companies to compete for this business. Although the outsourced services market has matured from a pricing perspective, the demand for the services from the end user is still strong. We believe our market position as the only company capable of delivering an enterprise payment solution that eliminates the need to outsource and revenue share will result in significant growth across all our deployment channels.

We continue to believe that organic growth through sales by internal salespeople is usually the most efficient and profitable growth strategy in the cash services business. Much of our historical growth has occurred in this manner. We realize that recognizing industry trends is no assurance of success. We have also complimented our internal sales strategy by creating relationships with independent sales organizations that have established relationships with gaming operators nationwide. Although our sales commissions will be higher at gaming establishments entered through this sales channel, we will not be burdened with the up-front salary, travel and entertainment costs associated with the traditional internal sales approach. This sales channel should prove to be even more valuable with the OnSwitch™ model.

Critical Accounting Policies

In presenting our financial statements in conformity with accounting principles generally accepted in the United States, we are required to make estimates and assumptions that affect the amounts reported therein. Several of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. However, events that are outside of our control cannot be predicted and, as such, they cannot be contemplated in evaluating such estimates and assumptions. If there is a significant unfavorable change to current conditions, it will likely result in a material adverse impact to our consolidated results of operations, financial position and in liquidity. We believe that the estimates and assumptions we used when preparing our financial statements were the most appropriate at that time. Presented below are those accounting policies that we believe require subjective and complex judgments that could potentially affect reported results.

Revenue Recognition. In general, we record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. The following policies reflect specific criteria for our various revenue streams:

ATM's and Credit Cards. Fees earned from ATM and credit card advances are recorded on the date of transaction.

Check Cashing: Revenue is recorded from the fees on check cashing services on the date the check is cashed. If a customer's check is returned by the bank on which it is drawn, the full amount of the check is charged as bad debt expense. The check is subsequently resubmitted to the bank for payment. If the bank honors it, the amount of the check is recognized as negative bad debt expense.

Check Cashing Bad Debt. The principal source of bad debts that we experience are due to checks presented by casino patrons that are ultimately returned by the drawer's bank for insufficient funds. We account for these check cashing bad debts on a cash basis. Fees charged for check cashing are recorded as income on the date the check is cashed. If a check is returned by the bank on which it is drawn, we charge the full amount of the check as a bad debt expense. If the bank subsequently honors the check, we recognize the amount of the check as a negative bad debt. Based on the quick turnaround of the check being returned by the bank on which it is drawn and our resubmission to the bank for payment, we feel this method approximates the allowance method, which is a Generally Accepted Accounting Principle.

Goodwill and Long-Lived Intangible Assets. The carrying value of goodwill as well as other long-lived intangible assets such as contracts with casinos is reviewed if the facts and circumstances suggest that they may be impaired. With respect to contract rights in particular, which have defined terms, this will result in an annual adjustment based on the remaining term of the contract. If this review indicates that the assets will not be recoverable, as determined based on our discounted estimated cash flows over the remaining amortization period, then the carrying values of the assets are reduced to their estimated fair values. Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, "Goodwill And Other Intangible Assets" which eliminates amortization of goodwill and certain other intangible assets and requires annual testing for impairment. The calculation of fair value includes a number of estimates and assumptions, including projections of future income and cash flows, determining remaining contract periods and the choice of an appropriate discount rate. In our experience, forecasts of cash flows based on historical results are relatively dependable. We use the remaining contract term for estimating contract periods, which may vary from actual experience due to early terminations that cannot be forecast. We use our current cost of funds, which is a variable rate, as the discount rate. Use of a higher discount rate would have the effect of reducing the calculated fair value, while use of a lower rate would increase the calculated fair value. In connection with the acquisition of Available Money (our only acquired reporting unit), goodwill was allocated based on the excess of the final purchase price over the value of the acquired contract rights, determined as described above.

Stock Based Compensation. Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), "Share-Based Payment," under the modified prospective method. SFAS No. 123(R) eliminates accounting for share-based compensation transactions using the intrinsic value method prescribed under APB Opinion No. 25 "Accounting for Stock Issued to Employees," and requires instead that such transactions be accounted for using a fair-value-based method. Under the modified prospective method, the Company is required to recognize compensation cost for share-based payment to employees based on their grant date fair value from the beginning of the fiscal period in which the recognition provisions are first applied. For periods prior to adoption, the financial statements are unchanged, and the pro forma disclosures previously required by SFAS No. 123, as amended by SFAS No. 148, will continue to be required under SFAS No. 123(R) to the extent those amounts differ from those in the Statement of Operations.

Results of Operations
Three Months Ended September 30, 2008 (Unaudited) vs. Three Months Ended September 30, 2007 (Unaudited)

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Change |
|---|---|---|---|
| Net Loss | $ (745,608) | $ (719,348) | $ (26,260) |
| Revenues | 2,832,830 | 2,194,391 | 638,439 |
| Cost of revenues | 2,033,084 | 1,718,472 | 314,612 |
| Commissions & Rents Paid | 955,062 | 952,601 | 2,461 |
| Wages & Benefits | 420,546 | 391,726 | 28,820 |
| Processing Fee & Service Charges | 278,172 | 257,012 | 21,160 |
| Bad Debts | 68,752 | 12,559 | 56,193 |
| ATM Lease Fees & Maintenance | 64,506 | 38,272 | 26,234 |
| Cash Replenishment Services | 22,913 | 23,032 | (119) |
| Hardware Fees | 112,460 | - | 112,460 |
| Implementation Fees | 58,750 | - | 58,750 |
| Gross Receipts Tax | 37,436 | 31,730 | 5,706 |
| Other | 14,487 | 11,540 | 2,947 |
| Gross Profit | 799,746 | 475,919 | 323,827 |
| Selling, General and Administrative Expenses | 445,394 | 412,554 | 32,840 |
| Contributions | 2,500 | 4,660 | (2,160) |
| Management Compensation | 173,750 | 173,750 | - |
| Marketing | 517 | 619 | (102) |
| Professional Fees | 59,563 | 73,844 | (14,281) |
| Trade Show & Sponsorships | 1,025 | - | 1,025 |
| Travel | 54,763 | 50,176 | 4,587 |
| Other | 153,276 | 109,505 | 43,771 |
| Noncash Compensation | 131,940 | 195,984 | (64,044) |
| Depreciation and amortization | 205,121 | 224,327 | (19,206) |
| Settlement expenses | - | 5,000 | (5,000) |
| Interest expense, net | (778,421) | (385,448) | 392,973 |
| Gain on Sale of Equipment | 15,522 | - | 15,522 |
| Other income (expenses) | - | 28,046 | (28,046) |

Our net loss increased by approximately $26,000 during the three months ended September 30, 2008 primarily due to the fact that and increase in gross profit of $324,000 was offset by a $450,000 interest penalty ($150,000 for each of the first three quarters of 2008) to our primary lender resulting from noncompliance with financial covenants. The Company is currently in negotiations with Baena to extend the maturity date of the note and to amend various financial covenants. We had a one time gain on sale of various equipment related to a new contract, and a decrease in various general and administrative expenses.

Our revenues as a whole increased by approximately 29.1% during the three months ended September 30, 2008 as compared to the three months ended September 30, 2007. The Money Centers and MCA of Wisconsin portfolios (consisting primarily of full-service casino contracts) increased 34% or $636,946. We lost approximately $46,000 in revenues from the loss of contracts in the 2nd quarter 2008. We added $245,003 in revenues from new contracts, as well as $329,178 and $321,000 in revenue from the sale of equipment and OnSwitch™ revenue related to a new contract while the remaining Money Centers casinos same store sales remained relatively unchanged from same quarter last year with the exception of Rolling Hills which was down 27% or $95,464 due to the ongoing conversion and implementation of OnSwitch™. The Available Money portfolio (consisting of ATM contracts) decreased 55% or

$180,000 primarily due to termination of the Tropicana contract.

Our cost of revenues increased by approximately $314,000 during the three months ended September 30, 2008 primarily due to higher commissions negotiated on contract renewals with some of our casino customers. We incurred hardware fees of $112,460 for equipment that was sold to a customer. Additionally, as part of our refinancing with our ATM supplier, we paid $33,000 in ATM lease fees & maintenance.

Our selling, general and administrative expenses remained relatively the same for the three months ended September 30, 2008.

Nine Months Ended September 30, 2008 (Unaudited) vs. Nine Months Ended September 30, 2007 (Unaudited)

| | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 | Change |
|---|---|---|---|
| Net Loss | $ (1,848,233) | $ (2,502,533) | $ 654,300 |
| Revenues | 7,484,332 | 6,573,827 | 910,505 |
| Cost of revenues | 5,831,086 | 5,151,128 | 679,958 |
| Commissions & Rents Paid | 2,895,373 | 2,815,278 | 80,095 |
| Wages & Benefits | 1,312,090 | 1,220,002 | 92,008 |
| Processing Fee & Service Charges | 820,131 | 781,545 | 38,586 |
| Bad Debts | 96,482 | 72,677 | 23,805 |
| ATM Lease Fees & Maintenance | 197,595 | 54,078 | 143,517 |
| Cash Replenishment Services | 72,081 | 69,938 | 2,143 |
| Hardware Fees | 221,706 | - | 221,706 |
| Gross Receipts Tax | 116,050 | 101,469 | 14,581 |
| Implementation Fees | 58,750 | - | 58,750 |
| Other | 40,828 | 36,141 | 4,687 |
| Gross Profit | 1,653,246 | 1,422,699 | 230,547 |
| Selling, General and Administrative Expenses | 1,699,858 | 1,372,817 | 327,041 |
| Contributions | 11,360 | 14,290 | (2,930) |
| Management Compensation | 521,250 | 519,559 | 1,691 |
| Marketing | 8,734 | 20,868 | (12,134) |
| Professional Fees | 479,114 | 257,546 | 221,568 |
| Trade Show & Sponsorships | 13,675 | 53,669 | (39,994) |
| Travel | 201,888 | 142,314 | 59,574 |
| Other | 463,837 | 364,571 | 99,266 |
| Noncash Compensation | 319,670 | 816,979 | (497,309) |
| Depreciation and amortization | 640,517 | 670,031 | (29,514) |
| Settlement Expenses | - | 5,000 | (5,000) |
| Interest expense, net | (1,478,472) | (1,105,076) | 373,396 |
| Gain on Sale of Equipment | 25,476 | - | 25,476 |
| Gain on Settlement of Liabilities | 604,062 | - | 604,062 |
| Other income (expenses) | 7,500 | 44,671 | (37,171) |

Our net loss decreased by approximately $650,000 during the nine months ended September 30, 2008 primarily due to a decrease in non cash compensation and the gain on the settlement of the Campo litigation, offset by the legal fees paid to reach that settlement, an increase in cost of revenues and a $450,000 interest penalty ($150,000 for each of the first three quarters of 2008) to our primary lender for noncompliance with financial covenants. The Company is currently in negotiations with Baena to extend the maturity date of the note and to amend various financial covenants.

Our revenues as a whole increased by approximately 14% during the nine months months ended September 30, 2008 as compared to the nine months ended September 30, 2007. The Money Centers and MCA of Wisconsin portfolios (consisting primarily of full-service casino contracts) increased 17.4% or $982,621. We lost approximately $123,000 in revenues from the loss of contracts in the 2nd quarter 2008. We added $504,862 in revenues from new contracts, a gained $329,178 in revenue from the proceeds of equipment sales related to a new contract and we added $514,500 from OnSwitch™ revenue while the remaining Money Centers casinos same store sales remained relatively unchanged from same quarter last year with the exception of Rolling Hills which was down 13% or $137,372 due to the ongoing conversion and implementation of OnSwitch™. The Available Money portfolio (consisting of ATM contracts) decreased 27% or $255,846 primarily due to termination of the Tropicana contract.

Our cost of revenues increased by approximately $680,000 during the nine months ended September 30, 2008 primarily due to higher commissions negotiated on contract renewals with some of our casino customers. We incurred hardware fees of $221,706 for equipment that was sold to customers. Additionally, as part of our refinancing with our ATM supplier, we paid $99,000 in ATM lease fees & maintenance.

Our selling, general and administrative expenses increased by approximately $327,000 during the nine months ended September 30, 2008 primarily due to an increase in legal fees attributed to the Campo litigation in the amount of $180,000 and and increase in travel primarily related to MCA employees' attendance at the arbitration, Other selling, general and administrative expenses increased approximately $99,000 primarily due to increases in expenses such as lease expense and meals & entertainment.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements during the fiscal quarter ended September 30, 2008 that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our investors.

Changes in Financial Position, Liquidity and Capital Resources

| | Nine Months Ended September 30, 2008 ($) (Unaudited) | Nine Months Ended September 30, 2007 ($) (Unaudited) | Change ($) |
|---|---|---|---|
| Net Cash Provided by (Used in) Operating Activities | 988,425 | (988,841) | 1,977,266 |
| Net Cash Used in Investing Activities | (342,551) | (204,599) | (137,952) |
| Net Cash Used in Financing Activities | (830,240) | (21,194) | (809,046) |

Net cash provided by operations increased by approximately $2,000,000 due to our lower net loss and a $1,501,201 increase in deferred revenue in the form of deposits from a casino customer for the licensing of OnSwitch™, and an accrual for amounts due to Campo after arbitration offset by prepaid expenses related to deferred revenue.

Net cash used in investing activities increased during the nine months ended September 30, 2008 primarily due to increased investment in our Postilion platform for OnSwitchTM in the first three quarters of 2008.

Net cash used in financing activities increased during the nine months ended September 30, 2008 primarily due to reductions in the utilization of short-term lines of credit offset by the accrual of $450,000 in fees due our primary lender for covenant noncompliance.

A significant portion of our existing indebtedness is a $5,490,864 term loan from Baena Advisors, LLC. This loan bears interest at 30-day LIBOR plus 13%, payable monthly, and is due February 28, 2009. Under the terms of this loan, we are required to maintain a minimum level of cash and cash equivalents of not less than $5,500,000 on a 30-day average basis and not less than $5,000,000 at any one time. We currently are not in compliance with this covenant at all times. As a result, Baena has the right, which it has not exercised, to demand payment of the principal balance of the loan.

In August 2008, we entered into an agreement with Baena pursuant to which Baena agreed, retroactive to January 1, 2008, to waive our noncompliance with this covenant provided that, upon receipt of notice from Baena of a notice of noncompliance in any fiscal quarter (but only once per quarter) we issue to Baena warrants to purchase 150,000 shares of our common stock at an exercise price of $0.01 per share and accrue a $150,000 fee payable at maturity or in the alternative pay an immediate fee equal to interest on the outstanding balance for 90 days at the rate of 5% per year. In connection with the execution of this agreement, we agreed to issue to Baena warrants to purchase 450,000 shares of common stock and accrued $450,000 in fees with respect to the first three quarters of 2008.

The Company is currently in negotiations with Baena and Mercantile to extend the maturity date of each note and to amend various financial covenants in each note.

In addition, two of our casino customers provide vault cash lines of credit for our activities at their casinos. These facilities are unsecured and bear interest rates ranging from zero to approximately 3.25%. Our debt is used primarily to provide vault cash for our casino operations. Vault cash for our ATM operations at locations where we do not provide full cash access services (primarily Available Money customers) is provided by our ATM processing provider under the terms of the ATM processing agreement, at a cost equal to the ATM processor's cost of funds, which currently is Prime minus 5/8%.

On June 1, 2007, we borrowed $9,000 from a family member of our chief executive officer. The note bears interest at 8% per annum and is payable monthly, beginning June 1, 2007.

Though we anticipate our operating profits will be sufficient to meet our current obligations under our credit facilities, if we become unable to satisfy these obligations, then our business may be adversely affected as Baena and Mercantile will have the right to sell our assets to satisfy any outstanding indebtedness that we are unable to repay.

We also have a substantial amount of accounts payable and accrued expenses. To the extent that we are unable to satisfy these obligations as they come due, we risk the loss of services from our vendors and possible lawsuits seeking collection of amounts due.

Our goal is to change the way our customers view cash access services by transforming the way casinos find, serve and retain their customers. We will strive to assist our customers by continuing to grow and improve everything we do. We require significant capital to meet these objectives. Our capital requirements are as follows:

- Equipment: Each new account requires hardware at the location level and some additions to network infrastructure at our central server farm.

- Vault Cash: All contracts in which we provide full service money centers and ATM accounts for which we are responsible for cash replenishment require vault cash. Vault cash is the money necessary to fund the float that exists when we pay money to patrons but have yet to be reimbursed from the Debit, Credit Card Cash Advance, or ATM networks for executing the transactions.

- Acquisition Financing: We presently have no cash for use in completing additional acquisitions. To the extent that we cannot complete acquisitions through the use of our equity securities, we will need to obtain additional indebtedness or seller financing in order to complete such acquisitions.

- Working Capital: We will require substantial working capital to pay the costs associated with our expanding employee base and to service our growing base of customers.

- Technology Development: We will continue to incur development costs related to the design and development of our new products and related technology. We presently do not have an internal staff of engineers or software development experts and have outsourced this function to IntuiCode, LLC, a company operated by Jeremy Stein, a member of our Board of Directors.

We are actively seeking various sources of growth capital and strategic partnerships that will assist us in achieving our business objectives. We are also exploring various potential financing options and other sources of working capital. There is no assurance that we will succeed in finding additional sources of capital on favorable terms or at all. To the extent that we cannot find additional sources of capital, we may be delayed in fully implementing our business plan.

We do not pay and do not intend to pay dividends on our common stock. We believe it to be in the best interest of our stockholders to invest all available cash in the expansion of our business.

Due to our accumulated deficit of $26,248,570 as of September 30, 2008 and our net losses and cash provided by operations of $1,848,233 and $988,425, respectively, for the period ended September, 2008, our independent auditors have raised substantial doubt about our ability to continue as a going concern. While we believe that our present plan of operations will be profitable and will generate positive cash flow, there is no assurance that we will generate net income or positive cash flow for 2008 or at any time in the future.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

No information is required to be disclosed under this item.

## Item 4T - Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

As of September 30, 2008, we carried out an evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) under the supervision and with the participation of our management, including Christopher M. Wolfington, our Chief Executive Officer and Jason P. Walsh, our Chief Financial Officer. Based upon that evaluation, Mr. Wolfington and Mr. Walsh concluded that our disclosure controls and procedures are effective.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure.

### Changes in Internal Controls

There were no significant changes in our internal controls or, to our knowledge, in other factors that could significantly affect our disclosure controls and procedures subsequent to the date we carried out this evaluation

## PART II - OTHER INFORMATION

### Item 1 - Legal Proceedings

Although we are not currently involved in any litigation or legal disputes, we are, from time to time during the normal course of our business operations, subject to various litigation claims and legal disputes. We do not believe that the ultimate disposition of any of these matters will have a material adverse effect on our consolidated financial position, results of operations or liquidity.

### Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

None.

### Item 3 - Defaults Upon Senior Securities

As of September 30, 2008 we are in default under the December 28, 2006 Credit and Security Agreement with Baena Advisors, LLC as the result of our failure to maintain the required minimum borrowing base. We have made all required payments under the Credit and Security Agreement and the lender has not taken any action with respect to the default.

In August 2008, we entered into an agreement with Baena pursuant to which Baena agreed, retroactive to January 1, 2008, to waive our noncompliance with this covenant provided that, upon receipt of notice from Baena of a notice of noncompliance in any fiscal quarter (but only once per quarter) we issue to Baena warrants to purchase 150,000 shares of our common stock at an exercise price of $0.01 per share and accrue a $150,000 fee payable at maturity or in the alternative pay an immediate fee equal to interest on the outstanding balance for 90 days at the rate of 5% per year. In connection with the execution of this agreement, we agreed to issue to Baena warrants to purchase 450,000 shares of common stock and accrued $450,000 in fees with respect to the first three quarters of 2008.

### Item 4 - Submissions of Matters to a Vote of Security Holders

None.

### Item 5 - Other Information

None.

### Item 6 - Exhibits

3.1 Money Centers of America, Inc. Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed on October 19, 2004).

3.2 Money Centers of America, Inc. Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K filed on October 19, 2004).

4.1 Form of Specimen Stock Certificate.

4.2 Form of Baena Warrant (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed January 8, 2007).

10.1 Amended and Restated 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 of Form 10-KSB filed on July 13, 2004).

10.2 Employment Agreement dated as of January 2, 2004 by and between iGames Entertainment, Inc. and Christopher M. Wolfington (incorporated by reference to Exhibit 10.1 of Form 10-KSB filed on July 13, 2004).

26

10.3 Amendment to Employment Agreement dated as of March 20, 2006 by and between Money Centers of America, Inc. and Christopher M. Wolfington (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-QSB for the fiscal quarter ended March 31, 2006 filed on May 22, 2006).

10.4 Amended and Restated Employment Agreement dated as of March 1, 2007, but effective December 31, 2006 by and between Money Centers of America, Inc. and Jason P. Walsh.

10.5 Credit and Security Agreement dated December 28, 2006 between Money Centers of America, Inc. and Baena Advisors, LLC (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed January 8, 2007).

10.6 $4,750,000 Promissory Note dated December 28, 2006 from Money Centers of America, Inc. to Baena Advisors, LLC (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed January 8, 2007).

10.7 Amendment to Credit and Security Agreement dated December 28, 2006 between Money Centers of America, Inc. and Mercantile Capital, L.P. (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed January 8, 2007).

10.8 $2,525,000 Amended and Restated Promissory Note dated December 28, 2006 from Money Centers of America, Inc. to Mercantile Capital, L.P. (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed January 8, 2007).

14 Code of Ethics (incorporated by reference to Exhibit 14 of Form 10-KSB filed on July 13, 2004).

21 Subsidiaries of Money Centers of America, Inc.

31.1 Certification dated November 19, 2008 pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a) of the Principal Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Christopher M. Wolfington, Chief Executive Officer and Chief Financial Officer.

31.2 Certification dated November 19, 2008 pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a) of the Principal Accounting Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Jason P. Walsh, Chief Financial Officer.

32 Certification dated November 19, 2008 pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, made by Christopher M. Wolfington, Chief Executive Officer and Jason P. Walsh, Chief Financial Officer.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | | |
|---|---|---|
| | MONEY CENTERS OF AMERICA, INC. | |
| Date: November 19, 2008 | By: | /s/ Christopher M. Wolfington<br>Christopher M. Wolfington<br>Chief Executive Officer |
| Date: November 19, 2008 | By: | Jason P. Walsh<br>Jason P. Walsh<br>Chief Financial Officer |