

EPLUS INC  
Form 10-Q  
February 06, 2014

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2013

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 number: 1-34167

ePlus inc.  
(Exact name of registrant as specified in its charter)

Delaware 54-1817218  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

13595 Dulles Technology Drive, Herndon, VA 20171-3413  
(Address, including zip code, of principal executive offices)

Registrant's telephone number, including area code: (703) 984-8400

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
Yes ☒ 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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

Edgar Filing: EPLUS INC - Form 10-Q

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

Yes ☐ No ☒

The number of shares of common stock outstanding as of January 31, 2014 was 8,064,062.

---

---

TABLE OF CONTENTS

ePlus inc. AND SUBSIDIARIES

Part I. Financial Information:

Item 1. Financial Statements

<u>Unaudited Condensed Consolidated Balance Sheets as of December 31, 2013 and March 31, 2013</u>	4
<u>Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended December 31, 2013 and 2012</u>	5
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended December 31, 2013 and 2012</u>	6
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended December 31, 2013 and 2012</u>	7
<u>Unaudited Condensed Consolidated Statements of Stockholders' Equity for the Nine Months Ended December 31, 2013</u>	9
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	10

Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
--	----

Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
---	----

Item 4. <u>Controls and Procedures</u>	36
--	----

Part II. Other Information:

Item 1. <u>Legal Proceedings</u>	37
----------------------------------	----

Item 1A. <u>Risk Factors</u>	38
------------------------------	----

Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
--	----

Item 3. <u>Defaults Upon Senior Securities</u>	39
--	----

Item 4. <u>Mine Safety Disclosures</u>	39
--	----

Item 5. <u>Other Information</u>	39
----------------------------------	----

Item 6. <u>Exhibits</u>	39
-------------------------	----

<u>Signatures &amp; Certifications</u>	40
--	----

Table of Contents

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain statements that are, or may be deemed to be, “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, or “Exchange Act,” and are made in reliance upon the protections provided by such acts for forward-looking statements. Such statements are not based on historical fact, but are based upon numerous assumptions about future conditions that may not occur. Forward-looking statements are generally identifiable by use of forward-looking words such as “may,” “should,” “intend,” “estimate,” “will,” “potential,” “could,” “believe,” “expect,” “anticipate,” “project,” and similar expressions. Readers are cautioned not to place undue reliance on any forward-looking statements made by us or on our behalf. Forward-looking statements are made based upon information that is currently available or management’s current expectations and beliefs concerning future developments and their potential effects upon us, speak only as of the date hereof, and are subject to certain risks and uncertainties. We do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur, or of which we hereafter become aware. Actual events, transactions and results may materially differ from the anticipated events, transactions or results described in such statements. Our ability to consummate such transactions and achieve such events or results is subject to certain risks and uncertainties. Such risks and uncertainties include, but are not limited to, the matters set forth below:

we offer a comprehensive set of solutions— integrating information technology (IT) hardware sales, third-party maintenance, third-party software assurance, professional services, proprietary software, and financing, and may encounter some of the challenges, risks, difficulties and uncertainties frequently faced by similar companies, such as:

- managing a diverse product set of solutions in highly competitive markets with a small number of key vendors;
- increasing the total number of customers utilizing integrated solutions by up-selling within our customer base and gaining new customers;
- adapting to meet changes in markets and competitive developments;
- maintaining and increasing advanced professional services by retaining highly skilled personnel and vendor certifications;
- integrating with external IT systems, including those of our customers and vendors;
- continuing to enhance our proprietary software and update our technology infrastructure to remain competitive in the marketplace; and
- reliance on third parties to perform some of our service obligations;
- our dependence on key personnel, and our ability to hire and retain sufficient qualified personnel;
  - our ability to implement comprehensive plans for the integration of sales forces, cost containment, asset rationalization, systems integration and other key strategies;
- a possible decrease in the capital spending budgets of our customers or purchases from us;
- our ability to protect our intellectual property rights and successfully defend any challenges to the validity of our patents, and, when appropriate, license required technology;
- the creditworthiness of our customers and our ability to reserve adequately for credit losses;
- the possibility of goodwill impairment charges in the future;
- uncertainty and volatility in the global economy and financial markets;
- changes in the IT industry and/or rapid changes in product offerings;
- our ability to secure our electronic and other confidential information;
- our ability to raise capital, maintain or increase as needed our lines of credit with vendors or floor planning facility, or obtain debt for our financing transactions;
- future growth rates in our core businesses;
- our ability to realize our investment in leased equipment;
- significant adverse changes in, reductions in, or losses of relationships with major customers or vendors;
- our ability to successfully integrate acquired businesses;
- our ability to maintain effective disclosure controls and procedures and internal control over financial reporting;
- reduction of manufacturer incentives provided to us;

exposure to changes in, interpretations of, or enforcement trends related to tax rules and other regulations; and significant changes in accounting standards including changes to the financial reporting of leases which could impact the demand for our leasing services, or misclassification of products and services we sell resulting in the misapplication of revenue recognition policies.

We cannot be certain that our business strategy will be successful or that we will successfully address these and other challenges, risks and uncertainties. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Item 1A, “Risk Factors” and Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections contained elsewhere in this report, as well as other reports that we file with the Securities and Exchange Commission (“SEC”).

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## ePlus inc. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	As of December 31, 2013	As of March 31, 2013
(in thousands)		
ASSETS		
Cash and cash equivalents	\$40,498	\$52,720
Short-term investments	-	982
Accounts receivable—trade, net	214,123	173,445
Accounts receivable—other, net	27,821	18,809
Inventories—net	24,285	14,795
Notes receivable—net	43,312	31,893
Investment in leases and leased equipment—net	96,760	90,710
Property and equipment—net	4,253	2,213
Deferred costs	11,473	10,234
Other assets	9,238	9,107
Goodwill and other intangible assets	35,014	32,964
TOTAL ASSETS	\$506,777	\$437,872
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable—equipment	\$7,799	\$5,379
Accounts payable—trade	43,313	31,331
Accounts payable—floor plan	84,761	66,251
Salaries and commissions payable	12,274	12,911
Deferred revenue	23,108	16,970
Accrued expenses and other liabilities	17,897	20,264
Recourse notes payable	2,914	1,484
Non-recourse notes payable	50,451	40,255
Deferred tax liability	4,516	4,795
Total Liabilities	247,033	199,640
COMMITMENTS AND CONTINGENCIES (Note 7)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; none issued or outstanding	-	-
Common stock, \$.01 par value; 25,000,000 shares authorized; 13,025,745 issued and 8,088,484 outstanding at December 31, 2013 and 12,899,386 issued and 8,149,706 outstanding at March 31, 2013	130	129
Additional paid-in capital	104,525	99,641
Treasury stock, at cost, 4,937,261 and 4,749,680 shares, respectively	(77,614 )	(67,306 )

Edgar Filing: EPLUS INC - Form 10-Q

Retained earnings	232,414	205,358
Accumulated other comprehensive income—foreign currency translation adjustment	289	410
Total Stockholders' Equity	259,744	238,232
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$506,777	\$437,872

See Notes to Unaudited Condensed Consolidated Financial Statements.

4

---

Table of Contents

ePlus inc. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
	(amounts in thousands, except shares and per share data)			
Sales of product and services	\$255,747	\$228,053	\$764,067	\$712,513
Financing revenue	9,228	12,510	27,989	27,823
Fee and other income	2,207	1,462	5,572	6,464
<b>TOTAL REVENUES</b>	<b>267,182</b>	<b>242,025</b>	<b>797,628</b>	<b>746,800</b>
<b>COSTS AND EXPENSES</b>				
Cost of sales, product and services	207,378	188,103	625,562	587,693
Direct lease costs	3,055	2,934	9,803	7,638
	210,433	191,037	635,365	595,331
Professional and other fees	2,008	2,498	7,154	8,318
Salaries and benefits	30,795	27,535	91,162	80,808
General and administrative expenses	5,397	4,909	16,457	14,975
Interest and financing costs	496	517	1,389	1,368
	38,696	35,459	116,162	105,469
<b>TOTAL COSTS AND EXPENSES</b>	<b>249,129</b>	<b>226,496</b>	<b>751,527</b>	<b>700,800</b>
<b>EARNINGS BEFORE PROVISION FOR INCOME TAXES</b>	<b>18,053</b>	<b>15,529</b>	<b>46,101</b>	<b>46,000</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>7,443</b>	<b>6,496</b>	<b>19,050</b>	<b>18,872</b>
<b>NET EARNINGS</b>	<b>\$10,610</b>	<b>\$9,033</b>	<b>\$27,051</b>	<b>\$27,128</b>
<b>NET EARNINGS PER COMMON SHARE—BASIC</b>	<b>\$1.33</b>	<b>\$1.11</b>	<b>\$3.37</b>	<b>\$3.42</b>
<b>NET EARNINGS PER COMMON SHARE—DILUTED</b>	<b>\$1.32</b>	<b>\$1.11</b>	<b>\$3.34</b>	<b>\$3.38</b>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING—BASIC</b>	<b>7,950,354</b>	<b>7,843,153</b>	<b>7,946,746</b>	<b>7,778,174</b>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING—DILUTED</b>	<b>7,982,418</b>	<b>7,843,153</b>	<b>8,012,840</b>	<b>7,867,982</b>

See Notes to Unaudited Condensed Consolidated Financial Statements.



Table of Contents

ePlus inc. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended December 31, 2013      2012		Nine Months Ended December 31, 2013      2012	
	(amounts in thousands)			
NET EARNINGS	\$10,610	\$9,033	\$27,051	\$27,128
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Foreign currency translation adjustments	(84    )	(26    )	(121    )	15
Other comprehensive loss	(84    )	(26    )	(121    )	15
TOTAL COMPREHENSIVE INCOME	\$10,526	\$9,007	\$26,930	\$27,143

See Notes to Unaudited Condensed Consolidated Financial  
Statements.

Table of Contents

ePlus inc. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended December 31, 2013      2012 (in thousands)	
Cash Flows From Operating Activities:		
Net earnings	\$27,051	\$27,128
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	11,801	8,706
Reserves for credit losses, inventory obsolescence and sales returns	250	(97 )
Share-based compensation expense	2,965	2,495
Excess tax benefit from exercise of stock options	(1,366 )	(1,390 )
Deferred taxes	(278 )	(5 )
Payments from lessees directly to lenders—operating leases	(5,857 )	(3,799 )
Gain on disposal of property, equipment and operating lease equipment	(1,550 )	(843 )
Gain on sale of notes receivable	(5,707 )	(1,002 )
Excess increase in cash value of life insurance	(39 )	(137 )
Other	109	(7 )
Changes in:		
Accounts receivable—trade	(39,585)	(42,412)
Accounts receivable—other	(3,599 )	(4,648 )
Notes receivable	282	(502 )
Inventories	(9,182 )	(629 )
Investment in direct financing and sale-type leases—net	(20,406)	11,163
Deferred costs, other intangible assets and other assets	(410 )	(34,043)
Accounts payable—equipment	2,453	(8,294 )
Accounts payable—trade	10,816	26,744
Salaries and commissions payable, deferred revenue and accrued expenses and other liabilities	5,486	35,356
Net cash (used in) provided by operating activities	\$(26,766)	\$13,784
Cash Flows From Investing Activities:		
Purchases of short-term investments	\$-	\$(1,233 )
Maturities of short-term investments	982	7,401
Proceeds from sale of property, equipment and operating lease equipment	3,280	1,629
Purchases of property, equipment and operating lease equipment	(7,938 )	(12,559)
Purchases of assets to be leased	(8,278 )	-
Issuance of notes receivable	(68,033)	(32,917)
Repayments of notes receivable	33,497	13,977
Proceeds from sale or transfer of notes receivable	28,270	22,829
Premiums paid on life insurance	(163 )	(60 )
Cash used in acquisition, net of cash acquired	(2,845 )	-
Net cash (used in) investing activities	\$(21,228)	\$(933 )

Table of Contents

## UNAUDITED CONSENSUED CONSOLIDATED STATEMENTS OF CASH FLOWS - continued

	Nine Months Ended December 31, 2013      2012 (in thousands)	
Cash Flows From Financing Activities:		
Borrowings of non-recourse and recourse notes payable	\$29,020	\$20,234
Repayments of non-recourse and recourse notes payable	(2,247 )	(641 )
Repurchase of common stock	(10,308 )	(1,890 )
Dividends paid	(107 )	(20,100)
Proceeds from issuance of capital stock through option exercise	559	1,167
Payments of contingent consideration	(1,027 )	(473 )
Excess tax benefit from share based compensation	1,366	1,390
Net borrowings (repayments) on floor plan facility	18,510	(4,164 )
Net cash provided by (used in) financing activities	35,766	(4,477 )
Effect of exchange rate changes on cash	6	1
Net Increase in Cash and Cash Equivalents	(12,222 )	8,375
Cash and Cash Equivalents, Beginning of Period	52,720	33,778
Cash and Cash Equivalents, End of Period	\$40,498	\$42,153
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$100	\$15
Cash paid for income taxes	\$16,769	\$19,000
Schedule of Non-Cash Investing and Financing Activities:		
Purchase of property and equipment included in accounts payable	\$75	\$153
Purchase of operating lease equipment included in accounts payable	\$308	\$175
Purchase of assets financed as notes receivables included in accounts payable	\$3,997	\$-
Proceeds from sales of operating lease equipment included in accounts receivable	\$10	\$50
Repayments of non-recourse and recourse notes payable	\$15,147	\$11,374
Dividends declared included in accrued expenses and other liabilities	\$-	\$278
Vesting of share-based compensation	\$7,804	\$4,621
Origination and concurrent sale of notes receivable	\$102,131	\$-

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ePlus inc. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(amounts in thousands, except shares data)

	Common Stock Shares	Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, April 1, 2013	8,149,706	\$ 129	\$ 99,641	\$(67,306)	\$205,358	\$ 410	\$238,232
Issuance of shares for option exercises	40,000	-	559	-	-	-	559
Excess tax benefit of share-based compensation	-	-	1,366	-	-	-	1,366
Issuance of restricted stock awards	86,359	1	-	-	-	-	1
Share-based compensation			2,959	-	5	-	2,964
Repurchase of common stock	(187,581 )	-	-	(10,308)	-	-	(10,308 )
Net earnings	-	-	-	-	27,051	-	27,051
Foreign currency translation adjustment (net of tax of \$1)	-	-	-	-	-	(121 )	(121 )
Balance, December 31, 2013	8,088,484	\$ 130	\$ 104,525	\$(77,614)	\$232,414	\$ 289	\$259,744

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ePlus inc. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF PRESENTATION** — Our company was founded in 1990 and is a Delaware corporation. ePlus inc. is sometimes referred to in this Quarterly Report on Form 10-Q as “we,” “our,” “us,” “ourselves,” or “ePlus.” The unaudited condensed consolidated financial statements include the accounts of ePlus inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

**INTERIM FINANCIAL STATEMENTS** — The condensed consolidated financial statements for the three and nine months ended December 31, 2013 and 2012 are unaudited, but include all normal and recurring adjustments that, in the opinion of management, are necessary for a fair presentation of our financial position, results of operations, changes in comprehensive income and cash flows for such periods. Operating results for the three and nine months ended December 31, 2013 and 2012 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending March 31, 2014 or any other future period. These unaudited condensed consolidated financial statements do not include all disclosures required by the accounting principles generally accepted in the United States (“U.S. GAAP”) for annual financial statements. Our audited consolidated financial statements are contained in our annual report on Form 10-K for the year ended March 31, 2013 (“2013 Annual Report”), which should be read in conjunction with these interim financial statements.

**SUBSEQUENT EVENTS** — Management has evaluated subsequent events after the balance sheet date through the date our financial statements are issued.

**USE OF ESTIMATES** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management 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 the reported amounts of revenues and expenses during the reporting periods. Estimates are used when accounting for items and matters including, but not limited to, revenue recognition, residual values, vendor consideration, lease classification, goodwill and intangibles, reserves for credit losses, inventory obsolescence, and the recognition and measurement of income tax assets and other provisions and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

**ACCOUNTS RECEIVABLE—TRADE** — Trade accounts receivable are recorded at the invoiced amount and typically do not bear interest. The Company provides allowances for doubtful accounts related to accounts receivable for estimated losses resulting from the inability of its customers to make required payments. Our reserve for credit losses was \$1.0 million as of December 31, 2013 and March 31, 2013.

**ACCOUNTS RECEIVABLE—OTHER** — Accounts receivable—other consists of advances and payments made on behalf of our customers, as well as amounts due from vendors. Prior to the effective date of a lease or financing arrangement with our customer, any payments made by our financing segment for products and services for our customers are presented in accounts receivable—other as we generally act as an agent of our customer until the financing arrangement is accepted by our customer. We also receive incentives from vendors, including consideration pursuant to volume sales incentive programs, volume purchase incentive programs and shared marketing expense programs. These incentives generally relate to vendor programs with specified performance requirements, and estimated amounts earned but not paid by the vendors are included in accounts receivable—other. Our reserve for credit losses was \$0.2 million as of December 31, 2013 compared to \$0.1 million as of March 31, 2013.

REVENUE RECOGNITION — The majority of our revenues are derived from the following sources: sales of third party products, software, software assurance, maintenance and services; sales of our services and software; and financing revenues. For all these revenue sources, we determine whether we are the principal or agent in accordance with Accounting Standards Codification (“Codification”) Topic, Revenue Recognition, Subtopic Principal Agent Considerations. Our revenue recognition policies vary based upon these revenue sources.

## Table of Contents

Generally, sales of third party products and software are recognized when title and risk of loss are passed to the customer, there is persuasive evidence of an arrangement for sale, delivery has occurred, the sales price is fixed and determinable and collectability is reasonably assured. Using these tests, the vast majority of our sales are recognized upon delivery due to our sales terms with our customers. For the sale of third party software assurance, maintenance and services, we concluded that we are acting as an agent and recognize revenue for these transactions on a net basis at the date of sale, which is presented within sales of products and services in our unaudited condensed consolidated statements of operations. Gross billings for all products and services for the three months ended December 31, 2013 and December 31, 2012 were \$327.6 million and \$277.8 million, respectively. Gross billings for all products and services for the nine months ended December 31, 2013 and December 31, 2012 were \$952.0 million and \$875.3 million, respectively.

We generally recognize service revenue upon completion of the project, and revenue from maintenance, managed service or hosting arrangements that for which we are the principal on a straight-line basis over the term of the arrangement.

We recognize revenues from lease and financing arrangements over the term of the arrangement and net gains from the sale of financial assets or leased equipment are recognized at the date of sale.

**DEFERRED COSTS AND DEFERRED REVENUE** – Deferred costs include internal and third party costs associated with deferred revenue arrangements. Deferred revenue relate to professional services, which are generally recognized upon completion, and maintenance, managed service or hosting arrangements that are recognized on a straight-line basis over the term of the arrangement.

**EARNINGS PER SHARE** — Basic earnings per share is calculated by dividing net earnings attributable to common shareholders by the basic weighted average number of shares of common stock outstanding during each period. Diluted earnings per share reflects the potential dilution of securities that could participate in our earnings, including incremental shares issuable upon the assumed exercise of “in-the-money” stock options and other common stock equivalents during each period. We use the two-class method to allocate net income between common shares and other participating securities. For additional information, see Note 8, “Earnings Per Share.”

**CONCENTRATIONS OF RISK** — Financial instruments that potentially subject us to concentrations of credit risk include cash and cash equivalents, short-term investments, accounts receivable, notes receivable and investments in direct financing and sales-type leases. Cash and cash equivalents and short-term investments are maintained principally with financial institutions in the United States, which have high credit ratings. Risk associated with our accounts receivable, notes receivable and investments in direct financing and sales-type leases is reduced by the large number of diverse industries comprising our customer base and through the ongoing evaluation of collectability of our portfolio. Our credit risk is further mitigated through the underlying collateral and whether the lease is funded with recourse or non-recourse notes payable.

A substantial portion of our sales of product and services are from sales of Cisco, Hewlett Packard, and NetApp products, which represented 45.9%, 9.9%, and 11.1%, and 48.8%, 10.2%, and 8.7%, respectively, of our sales of product and services for the three and nine months ended December 31, 2013, as compared to 42.7%, 12.6%, and 7.5%, and 48.7%, 10.9%, and 6.9%, respectively, of our sales of product and services for the three and nine months ended December 31, 2012. Any changes in our vendors’ ability to provide products could have a material adverse effect on our business, results of operations and financial condition.

**RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS** — There were no new accounting standards issued during the three months ended December 31, 2013 that materially impacted our condensed consolidated financial statements or could materially impact our financial statements or related disclosures in a future period.

## 2. FINANCING INVESTMENTS

Our notes receivable, investments in leases, and leased equipment consist of assets that we financed for our customers, which we manage as a portfolio of investments. Our leases to our customers are accounted for as investments in direct financing, sales-type or operating leases in accordance with Codification Topic, Leases. We also finance third-party software, maintenance, and services for our customers, which are classified as notes receivables. Our notes receivables are interest bearing and are often due over a period of time that corresponds with the terms of the leased products. Our financing investments consist of the following (in thousands):

	December 31, 2013	March 31,
Notes receivable	\$43,312	\$31,893
Investment in direct financing and sales-type leases—net	74,759	66,243
Investment in operating lease equipment—net	22,001	24,467
	\$140,072	\$122,603



Table of Contents

## NOTES RECEIVABLE—NET

Our notes receivable balance as of December 31, 2013 and March 31, 2013 consists of the following (in thousands):

	December 31, 2013	March 31, 2013
Notes receivable	\$46,163	\$35,030
Initial direct costs, net of amortization (1)	229	-
Less: Reserve for credit losses (2)	(3,080 )	(3,137 )
Notes receivable—net	\$43,312	\$31,893

(1) Initial direct costs are shown net of amortization of \$115 thousand as of December 31, 2013.

(2) For details on reserve for credit losses, refer to Note 4, “Reserves for Credit Losses.”

## INVESTMENT IN DIRECT FINANCING AND SALES-TYPE LEASES—NET

Our investment in direct financing and sales-type leases—net consists of the following (in thousands):

	December 31, 2013	March 31, 2013
Minimum lease payments	\$71,930	\$64,614
Estimated unguaranteed residual value (1)	8,114	7,557
Initial direct costs, net of amortization (2)	485	684
Less: Unearned lease income	(4,785 )	(5,767 )
Less: Reserve for credit losses (3)	(985 )	(845 )
Investment in direct financing and sales-type leases—net	\$74,759	\$66,243

Includes estimated unguaranteed residual values of \$3,439 thousand and \$3,361 thousand as of December 31, 2013 (1) and March 31, 2013, respectively, for direct financing leases which have been sold and accounted for as sales under Codification Topic, Transfers and Servicing.

(2) Initial direct costs are shown net of amortization of \$359 thousand and \$479 thousand as of December 31, 2013 and March 31, 2013, respectively.

(3) For details on reserve for credit losses, refer to Note 4, “Reserves for Credit Losses.”

## INVESTMENT IN OPERATING LEASE EQUIPMENT—NET

Investment in operating lease equipment—net primarily represents leases that do not qualify as direct financing leases. The components of the investment in operating lease equipment—net are as follows (in thousands):

	December 31, 2013	March 31, 2013
Cost of equipment under operating leases	\$43,030	\$46,106
Less: Accumulated depreciation and amortization	(21,029 )	(21,639 )
Investment in operating lease equipment—net (1)	\$22,001	\$24,467

(1) The total includes estimated unguaranteed residual values of \$6,116 thousand and \$7,763 thousand as of December 31, 2013 and March 31, 2013, respectively, for operating leases.



Table of Contents

## TRANSFERS OF FINANCIAL ASSETS

We enter into arrangements to transfer the contractual payments due under financing investments, which are accounted for as sales or secured borrowings in accordance with Codification Topic, Transfers and Servicing. For transfers accounted for as a secured borrowing, the corresponding investments serve as collateral for non-recourse notes payable. See Note 6, “Notes Payable and Credit Facility.”

For transfers accounted for as sales, we derecognize the carrying value of the asset transferred and recognize a net gain or loss on the sale, which is presented within financing revenues in the unaudited condensed consolidated statement of operations. During the three months ended December 31, 2013 and 2012, we recognized net gains of \$2.3 million and \$2.7 million, respectively. Total proceeds from these sales were \$45.7 million and \$48.1 million for the three months ended December 31, 2013 and 2012, respectively. For the nine months ended December 31, 2013 and 2012, we recognized net gains of \$7.9 million and \$4.4 million, respectively, and total proceeds from these sales were \$168.1 million and \$91.5 million, respectively.

## 3. GOODWILL AND OTHER INTANGIBLE ASSETS

Our goodwill and other intangible assets consist of the following (in thousands):

	December 31, 2013	March 31,
Goodwill	\$29,570	\$28,660
Customer relationships	3,690	2,897
Capitalized software development	1,754	1,407
	\$35,014	\$32,964

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets we have acquired in business combinations. As of December 31, 2013, goodwill attributed to our technology and software document management reporting units was \$28.5 million and \$1.1 million, respectively. Goodwill attributed to our technology reporting unit increased by \$0.9 million due to the acquisition of Advistor, Inc. in November, 2013. See Note 14, “Business Combinations,” for additional information.

The gross carrying amount and accumulated amortization of customer relationships were \$8.0 million and \$4.3 million, respectively, as of December 31, 2013, and \$6.5 million and \$3.6 million, respectively, as of March 31, 2013. The gross carrying amount and accumulated amortization of capitalized software development costs were \$2.6 million and \$0.8 million, respectively, as of December 31, 2013, and \$1.8 million and \$0.4 million, respectively, as of March 31, 2013. Customer relationships and capitalized software development costs are amortized over their estimated useful life, which is generally between 3 to 5 years.

We analyzed the goodwill in accordance with the provisions of Codification Topic Intangibles – Goodwill and Other, and concluded that the fair value of technology and software document management reporting units, more likely than not, exceed their respective carrying amounts as of October 1, 2013.

## 4. RESERVES FOR CREDIT LOSSES

Activity in our reserves for credit losses for the nine months ended December 31, 2013 and 2012 were as follows (in thousands):

Accounts	Notes	Total
----------	-------	-------

Edgar Filing: EPLUS INC - Form 10-Q

	Receivable	Receivable	Lease-Related Receivables	
Balance April 1, 2013	\$ 1,147	\$ 3,137	\$ 845	\$5,129
Provision for bad debts	44	(57 )	140	127
Write-offs, net of recoveries	(17 )	-	-	(17 )
Balance December 31, 2013	\$ 1,174	\$ 3,080	\$ 985	\$5,239

	Accounts Receivable	Notes Receivable	Lease-Related Receivables	Total
Balance April 1, 2012	\$ 1,307	\$ 2,963	\$ 1,336	\$5,606
Provision for bad debts	(118 )	189	(328 )	(257 )
Write-offs, net of recoveries	(97 )	-	(3 )	(100 )
Balance December 31, 2012	\$ 1,092	\$ 3,152	\$ 1,005	\$5,249

Table of Contents

Our reserves for credit losses and minimum payments associated with our notes receivables and lease-related receivables disaggregated on the basis of our impairment method were as follows (in thousands):

	December 31, 2013		March 31, 2013	
	Notes Receivable	Lease-Related Receivables	Notes Receivable	Lease-Related Receivables
Reserves for credit losses:				
Ending balance: collectively evaluated for impairment	\$ 254	\$ 883	\$ 310	\$ 747
Ending balance: individually evaluated for impairment	2,826	102	2,827	98
Ending balance	\$3,080	\$ 985	\$ 3,137	\$ 845

Minimum payments:

Ending balance: collectively evaluated for impairment	\$43,155	\$ 71,560	\$ 31,793	\$ 64,246
Ending balance: individually evaluated for impairment	3,237	370	3,237	368
Ending balance	\$46,392	\$ 71,930	\$ 35,030	\$ 64,614

As of December 31, 2013, we had \$3.3 million of receivables from a specific customer in bankruptcy and total reserves for credit losses of \$2.8 million, which represented our estimated probable loss. As of March 31, 2013, we had \$3.4 million of receivables from this customer and total reserves for credit losses of \$2.8 million.

As of December 31, 2013, the age of the recorded minimum lease payments and net credit exposure associated with our investment in direct financing and sales-type leases that are past due, disaggregated based on our internally assigned credit quality ratings ("CQR"), were as follows (in thousands):

	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Unbilled Minimum Lease Payments	Total Minimum Lease Payments	Unearned Income	Non-Recourse Notes Payable	Net Credit Exposure
December 31, 2013										
High CQR	\$ 84	\$ 638	\$ 166	\$ 888	\$ 317	\$ 40,554	\$ 41,759	\$ (1,903 )	\$ (10,748 )	\$ 29,108
Average CQR	82	27	25	134	302	29,365	29,801	(1,942 )	(12,269 )	15,590
Low CQR	-	-	61	61	-	309	370	(43 )	-	327
Total	166	665	252	1,083	619	70,228	71,930	(3,888 )	(23,017 )	45,025
March 31, 2013										
High CQR	\$ 454	\$ 316	\$ 28	\$ 798	\$ 322	\$ 38,278	\$ 39,398	\$ (2,777 )	\$ (10,337 )	\$ 26,284
Average CQR	51	51	5	107	101	24,640	24,848	(1,596 )	(7,857 )	15,395
Low CQR	-	-	61	61	-	307	368	(39 )	-	329
Total	505	367	94	966	423	63,225	64,614	(4,412 )	(18,194 )	42,008

# Edgar Filing: EPLUS INC - Form 10-Q

## Table of Contents

As of December 31, 2013, the age of the recorded notes receivable balance disaggregated based on our internally assigned CQR were as follows (in thousands):

	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Unbilled Notes Receivable	Total Notes Receivable	Non- Recourse Notes Payable	Net Credit Exposure
December 31, 2013									
High CQR	\$-	\$770	\$45	\$815	\$907	\$36,354	\$38,076	\$(18,330)	\$19,746
Average CQR	303	-	-	303	43	4,733	5,079	(3,011)	2,068
Low CQR	-	-	791	791	-	2,446	3,237	-	3,237
Total	\$303	\$770	\$836	\$1,909	\$950	\$43,533	\$46,392	\$(21,341)	\$25,051

## March 31, 2013

High CQR	\$1,342	\$127	\$832	\$2,301	\$3,450	\$22,097	\$27,848	\$(5,621)	\$22,227
Average CQR	1,379	-	-	1,379	-	2,566	3,945	(1,203)	2,742
Low CQR	-	-	726	726	-	2,511	3,237	-	3,237
Total	\$2,721	\$127	\$1,558	\$4,406	\$3,450	\$27,174	\$35,030	\$(6,824)	\$28,206

We estimate losses on our net credit exposure to be between 0% - 5% for customers with highest CQR, as these customers are investment grade or the equivalent of investment grade. We estimate losses on our net credit exposure to be between 2% - 25% for customers with average CQR, and between 50% - 100% for customers with low CQR, which includes customers in bankruptcy.

## 5. OTHER ASSETS AND ACCRUED EXPENSES AND OTHER LIABILITIES

Our other assets and accrued expenses and other liabilities consist of the following (in thousands):

	December 31, 2013	March 31, 2013
Unbilled accounts receivable	\$413	\$3,095
Prepaid assets	3,029	2,667
Other	5,796	3,345
Total other assets	\$9,238	\$9,107

	December 31, 2013	March 31, 2013
Accrued expenses	\$5,930	\$9,533
Other	11,967	10,731
Total accrued expenses and other liabilities	\$17,897	\$20,264

Other assets include cash surrender value of life insurance policies, escrow deposits and off-lease equipment. Other

liabilities include accrued taxes, deferred compensation, and lease rental payments due to third parties.

15

---

Table of Contents

## 6. NOTES PAYABLE AND CREDIT FACILITY

Non-recourse and recourse obligations consist of the following (in thousands):

	December 31, 2013	March 31, 2013
Recourse note payable with interest ranging from 2.50% to 4.84% at December 31, 2013 and March 31, 2013	\$2,914	\$1,484
Non-recourse equipment notes secured by related investments in leases with interest rates ranging from 2.00% to 11.24% at December 31, 2013 and March 31, 2013	\$50,451	\$40,255

Principal and interest payments on the non-recourse notes payable are generally due monthly in amounts that are approximately equal to the total payments due from the customer under the leases or notes receivable that collateralize the notes payable. The weighted average interest rate for our non-recourse notes payable was 3.46% and 4.23%, as of December 31, 2013 and March 31, 2013, respectively. The weighted average interest rate for our recourse notes payable was 3.93% and 4.84%, as of December 31, 2013 and March 31, 2013, respectively. Under recourse financing, in the event of a default by a customer, the lender has recourse to the customer, the assets serving as collateral, and us. Under non-recourse financing, in the event of a default by a customer, the lender generally only has recourse against the customer, and the assets serving as collateral, but not against us.

Our technology segment, through our subsidiary ePlus Technology, inc., finances its operations with funds generated from operations, and with a credit facility with GE Commercial Distribution Finance Corporation ("GECDF"). This facility provides short-term capital for our technology segment. There are two components of the GECDF credit facility: (1) a floor plan component and (2) an accounts receivable component. Under the floor plan component, we had outstanding balances of \$84.8 million and \$66.3 million as of December 31, 2013 and March 31, 2013, respectively. Under the accounts receivable component, we had no outstanding balances as of December 31, 2013 and March 31, 2013. As of December 31, 2013, the facility agreement had an aggregate limit of the two components of \$175.0 million, and the accounts receivable component had a sub-limit of \$30.0 million, which bears interest assessed at a rate of the One Month LIBOR plus two and one half percent.

The credit facility has full recourse to ePlus Technology, inc. and is secured by a blanket lien against all its assets, such as receivables and inventory. Availability under the facility may be limited by the asset value of equipment we purchase or accounts receivable, and may be further limited by certain covenants and terms and conditions of the facility. These covenants include but are not limited to a minimum excess availability of the facility and minimum earnings before interest, taxes, depreciation and amortization ("EBITDA") of ePlus Technology, inc. We were in compliance with these covenants as of December 31, 2013. In addition, the facility restricts the ability of ePlus Technology, inc. to transfer funds to its affiliates in the form of dividends, loans or advances with certain exceptions for dividends to ePlus inc. The facility also requires that financial statements of ePlus Technology, inc. be provided within 45 days of each quarter and 90 days of each fiscal year end and also includes that other operational reports be provided on a regular basis. Either party may terminate with 90 days advance notice. We are not, and do not believe that we are reasonably likely to be, in breach of the GECDF credit facility. In addition, we do not believe that the covenants of the GECDF credit facility materially limit our ability to undertake financing. In this regard, the covenants apply only to our subsidiary, ePlus Technology, inc. This credit facility is secured by the assets of only ePlus Technology, inc. and the guaranty as described below.

The facility provided by GECDF requires a guaranty of \$10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its annual audited financial statements by certain dates. We have delivered the annual audited financial



statements for the year ended

March 31, 2013, as required. The loss of the GECDF credit facility could have a material adverse effect on our future results as we currently rely on this facility and its components for daily working capital and liquidity for our technology segment and as an operational function of our accounts payable process.

We have an agreement with First Virginia Community Bank, (formerly 1st Commonwealth Bank of Virginia), to provide us with a \$0.5 million credit facility, which matures on October 27, 2014. The credit facility is available for use by us and our affiliates and the lender has full recourse to us. Borrowings under this facility bear interest at the Wall Street Journal U.S. Prime rate plus 1%. The primary purpose of the facility is to provide letters of credit for landlords, taxing authorities and bids. As of December 31, 2013 and March 31, 2013, we had no outstanding balance on this credit facility.

Table of Contents

7.COMMITMENTS AND CONTINGENCIES

Legal Proceedings

On May 19, 2009, we filed a complaint (the “Lawson litigation”) in the United States District Court for the Eastern District of Virginia (the “trial court”) against four defendants, alleging that they used or sold products, methods, processes, services and/or systems that infringe on certain of our patents. During July and August 2009, we entered into settlement and license agreements with three of the defendants. We obtained a jury verdict against the remaining defendant, Lawson Software, Inc. (“Lawson”) on January 27, 2011. The jury unanimously found that Lawson infringed certain ePlus patents relating to electronic procurement systems, and additionally found that all ePlus patent claims tried in court were not invalid.

On May 23, 2011, the trial court issued a permanent injunction, ordering Lawson and its successors to: immediately stop selling and servicing products relating to its electronic procurement systems that infringe our patents; cease providing any ongoing or future maintenance, training or installation of its infringing products; and refrain from publishing any literature or information that encourages the use or sale of its infringing products. Lawson appealed the trial court’s judgment, and we appealed the trial court’s evidentiary ruling which precluded us from seeking monetary damages. On November 21, 2012, the United States Court of Appeals for the Federal Circuit (the “Appeals Court”) reversed in part, vacated in part, affirmed in part, and remanded. The Appeals Court upheld the trial court’s ruling precluding us from seeking monetary damages. The Appeals Court also upheld the finding that the patent claims were not invalid and upheld, in part, the finding of infringement. On June 11, 2013, consistent with the Appeals Court’s decision, the trial court issued an Order modifying the injunction so that it would continue in full effect with respect to those configurations of Lawson’s electronic procurement systems that the Appeals Court affirmed are infringing.

On August 16, 2013, the trial court issued an order finding, by clear and convincing evidence, that Lawson is in contempt of the trial court’s May 23, 2011, injunction, entering judgment in our favor in the amount of \$18.2 million, and ordering that Lawson pay to the court a daily coercive fine in the amount of \$62,362 until Lawson establishes that it is in compliance with the injunction. Lawson has appealed both the order modifying the injunction, and the order finding it in contempt. Lawson posted a bond, and collection of the judgment and imposition of the coercive fine have been stayed pending the appeal. In light of the Appeals Court’s January 29, 2014, decision on the reexamination proceeding described below, we anticipate that the Appeals Court will vacate the injunction on a going-forward basis. However, we continue to believe that we are entitled to enforce the contempt judgment. Briefing on the appeals was completed in January 2014, however, we do not know if or when the Appeals Court will hold oral arguments, or when it will issue a ruling. Court calendars and rulings are inherently unpredictable, and we cannot predict when any motion or appeal will be resolved, or the outcome thereof.

Patent litigation is extremely complex and issues regarding a patent’s validity can arise even subsequent to a patent’s issuance. On November 8, 2013, the Appeals Court affirmed the United States Patent and Trademark Office’s Patent Trial and Appeal Board’s adverse decision in a reexamination proceeding concerning the validity of the patent at issue in the Lawson litigation. On January 29, 2014, the Appeals Court denied our Motion for Rehearing. This unfavorable decision in the reexamination proceeding may adversely affect the Lawson litigation, including the probable termination of the injunction described above. As noted above, court calendars and rulings are inherently unpredictable, and we cannot predict when any motion or appeal will be resolved, or the outcome thereof.

While we believe that we have a basis for our claims, these types of cases are complex in nature, are likely to have significant expenses associated with them, and we cannot predict whether we will be successful in our claim for a contempt finding or damages, whether any award ultimately received will exceed the costs incurred to pursue this matter, or how long it will take to bring this matter to resolution.

Other Matters

We may become party to various legal proceedings arising in the normal course of business, including preference payment claims asserted in customer bankruptcy proceedings, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, claims of alleged non-compliance with contract provisions, employment related claims, claims by competitors, vendors or customers, and claims related to alleged violations of laws and regulations. We accrue for costs associated with these contingencies when a loss is probable and the amount is reasonably estimable. Refer to Note 4, "Reserves for Credit Losses," for additional information regarding loss contingencies associated with our accounts, notes and lease-related receivables.

Table of Contents

## 8. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net earnings attributable to common shares by the weighted average number of common shares outstanding for the period. Diluted net earnings per share include the potential dilution of securities that could participate in our earnings, but not securities that are anti-dilutive. Certain unvested shares of restricted stock awards (“RSAs”) contain non-forfeitable rights to dividends, whether paid or unpaid. As a result, these RSAs are considered participating securities because their holders have the right to participate in earnings with common stockholders. We use the two-class method to allocate net income between common shares and other participating securities. As of December 31, 2013, we had 45 thousand shares of RSAs that contained non-forfeitable rights to dividends, which vest over the next six months. In addition, we no longer grant RSAs that contain non-forfeitable rights to dividends.

The following table provides a reconciliation of the numerators and denominators used to calculate basic and diluted net earnings per common share as disclosed in our unaudited condensed consolidated statements of operations for the three and nine months ended December 31, 2013 and December 31, 2012 (in thousands, except per share data).

	Three Months Ended December 31, 2013		Nine Months Ended December 31, 2012	
Basic and diluted shares outstanding				
Weighted average shares outstanding — basic	7,950	7,843	7,947	7,778
Effect of dilutive shares	32	-	66	90
Weighted average shares outstanding — diluted	7,982	7,843	8,013	7,868
Calculation of earnings per share - basic				
Net earnings	\$10,610	\$9,033	\$27,051	\$27,128
Net earnings attributable to participating securities	60	342	261	507
Net earnings attributable to common shareholders	\$10,550	\$8,691	\$26,790	\$26,621
Earnings per share - basic	\$1.33	\$1.11	\$3.37	\$3.42
Calculation of earnings per share - diluted				
Net earnings attributable to common shareholders— basic	\$10,550	\$8,691	\$26,790	\$26,621
Add: undistributed earnings attributable to participating securities	-	-	2	1
Net earnings attributable to common shareholders— diluted	\$10,550	\$8,691	\$26,792	\$26,622
Earnings per share - diluted	\$1.32	\$1.11	\$3.34	\$3.38

During the quarter ended December 31, 2012, we paid a special cash dividend of \$20.1 million, which exceeded our net earnings for the quarter. Under the two-class method for calculating earnings per share, the excess of the dividend over net earnings results in diluted earnings per share being anti-dilutive. Therefore, our diluted earnings per share is equal to basic earnings per share.

All unexercised stock options were included in the computations of diluted earnings per share for the three and nine months ended December 31, 2012. As of December 31, 2013, we had no unexercised stock options.

## 9. STOCKHOLDERS' EQUITY

On November 13, 2013, our board of directors has authorized the Company to repurchase up to 750,000 shares of ePlus' outstanding common stock over a 12-month period commencing on November 14, 2013. The purchases may be made from time to time in the open market, or in privately negotiated transactions, subject to availability. Any repurchased shares will have the status of treasury shares and may be used, when needed, for general corporate purposes.

During the nine months ended December 31, 2013, we repurchased 145,508 shares of our outstanding common stock at an average cost of \$53.62 per share for a total purchase price of \$7.8 million. Since the inception of our initial repurchase program on September 20, 2001 to December 31, 2013, we have repurchased 4.8 million shares of our outstanding common stock at an average cost of \$15.14 per share for a total purchase price of \$73.1 million.

Table of Contents

## 10.SHARE-BASED COMPENSATION

## Share-Based Plans

As of December 31, 2013 and March 31, 2013, we had share-based awards outstanding under the following plans: (1) the Amended and Restated 1998 Stock Incentive Plan (the "Amended LTIP (2003)"), (2) the 2008 Non-Employee Director Long-Term Incentive Plan ("2008 Director LTIP"), (3) the 2008 Employee Long-Term Incentive Plan ("2008 Employee LTIP") and (4) the 2012 Employee Long-Term Incentive Plan ("2012 Employee LTIP"). All the share-based plans defined fair market value as the previous trading day's closing price when the grant date falls on a date the stock was not traded.

For a summary of descriptions and vesting periods of the Amended LTIP (2003), the 2008 Director LTIP, the 2008 Employee LTIP, and the 2012 Employee LTIP discussed above, refer to our 2013 Annual Report.

## Stock Option Activity

During the three and nine months ended December 31, 2013 and 2012, there were no stock options granted. As of April 1, 2013, we had 40,000 options outstanding with an average exercise price between \$12.73 and \$15.25. During the nine months ended December 31, 2013, all 40,000 shares were exercised. As of December 31, 2013, we had no outstanding shares of stock options.

## Restricted Stock Activity

For the nine months ended December 31, 2013, we granted 9,244 restricted shares under the 2008 Director LTIP, and 77,115 restricted shares under the 2012 Employee LTIP. For the nine months ended December 31, 2012, we granted 8,234 restricted shares under the 2008 Director LTIP, and 96,590 restricted shares under the 2008 Employee LTIP. A summary of the restricted shares is as follows:

	Number of Shares	Weighted Average Grant-date Fair Value
Nonvested April 1, 2013	246,048	\$ 26.32
Granted	86,359	\$ 57.34
Vested	(132,031)	\$ 24.41
Nonvested December 31, 2013	200,376	\$ 41.11

Upon each vesting period of the restricted stock awards, employees are subject to minimum tax withholding obligations. Under the 2008 Director LTIP, 2008 Employee LTIP and 2012 Employee LTIP, we may withhold a sufficient number of shares due to the participant to satisfy their minimum tax withholding on employee stock awards. During the nine months ended December 31, 2013, we withheld 42,073 shares of common stock at a value of \$2.5 million, which was included in treasury stock. In the prior fiscal year, during the nine months ended December 31, 2012, we withheld 37,928 shares of common stock at a value of \$1.3 million, which was included in treasury stock.

## Compensation Expense

We recognize compensation cost for awards of restricted stock with graded vesting on a straight line basis over the requisite service period and estimate the forfeiture rate to be zero, which is based on historical experience. There are no additional conditions for vesting other than service conditions. During the three months ended December 31, 2013

and 2012, we recognized \$1.0 million and \$0.9 million, respectively, of total share-based compensation expense. During the nine months ended December 31, 2013 and 2012, we recognized \$3.0 million and \$2.5 million, respectively, of total share-based compensation expense. Unrecognized compensation expense related to non-vested restricted stock was \$6.1 million, which will be fully recognized over the next thirty (30) months.

We also provide our employees with a contributory 401(k) profit sharing plan. Employer contribution percentages are determined by us and are discretionary each year. The employer contributions vest pro-ratably over a four-year service period by the employees, after which all employer contributions will be fully vested. For the three months ended December 31, 2013 and 2012, our contribution expense for the plan was approximately \$255 thousand and \$221 thousand, respectively. For the nine months ended December 31, 2013 and 2012, our contribution expense for the plan was approximately \$779 thousand and \$686 thousand, respectively.

Table of Contents

## 11. INCOME TAXES

We recognize interest and penalties for uncertain tax positions. As of December 31, 2013, our gross liability related to uncertain tax positions was \$316 thousand. At December 31, 2013, if the unrecognized tax benefits of \$316 thousand were to be recognized, including the effect of interest, penalties and federal tax benefit, the impact would be \$441 thousand. We also recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. We recorded interest expense of \$4 thousand and \$13 thousand for the three months and nine months ended December 31, 2013 and 2012. We did not recognize any additional penalties. We had \$210 thousand and \$193 thousand accrued for the payment of interest at December 31, 2013 and 2012, respectively.

## 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

We account for the fair values of our assets and liabilities in accordance with Codification Topic Fair Value Measurement and Disclosure. Accordingly, we established a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. The fair value of our contingent consideration liability is calculated using the discounted cash flow approach based on significant unobservable inputs, which is considered a level 3 measurement.

The following table summarizes the fair value hierarchy of our contingent consideration liability as of March 31, 2013 (in thousands):

Fair Value Measurement Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
March 31, 2013				

## Liabilities:

Contingent consideration	\$918	\$ -	\$ -	\$ 918	\$ -
--------------------------	-------	------	------	--------	------

For the nine months ended December 31, 2013, the adjustment to the fair value of the contingent consideration was an increase of \$355 thousand, which was presented within general and administrative expenses in our unaudited consolidated statement of operations. During the nine months ended December 31, 2013, we paid \$1,272 thousand in consideration to satisfy our contingent liability. As of December 31, 2013, there were no outstanding amounts due under the contingent consideration arrangement.

For the nine months ended December 31, 2012, the adjustment to the fair value of the contingent consideration was an increase of \$77 thousand, which was presented as a reduction to general and administrative expenses in our unaudited consolidated statement of operations.

## 13. SEGMENT REPORTING

We manage our business segments on the basis of the products and services offered. Our reportable segments consist of our technology and financing segments. The technology segment sells information technology equipment and software and related services to corporate and governmental customers on a nationwide basis. The technology segment also provides Internet-based business-to-business supply chain management solutions for information



technology and other operating resources. The financing segment offers lease-financing solutions to corporations and governmental entities nationwide. We evaluate segment performance on the basis of total revenue and earnings before provision for income taxes, or segment earnings.

Edgar Filing: EPLUS INC - Form 10-Q

Table of Contents

Both segments utilize our proprietary software and services within the organization. Our reportable segment information is as follows (in thousands):

	Three Months Ended December 31, 2013			Three Months Ended December 31, 2012		
	Technology	Financing	Total	Technology	Financing	Total
Sales of product and services	\$255,747	\$-	\$255,747	\$228,053	\$-	\$228,053
Financing revenue	-	9,228	9,228	-	12,510	12,510
Fee and other income	2,193	14	2,207	1,360	102	1,462
Total revenues	257,940	9,242	267,182	229,413	12,612	242,025
Cost of sales, product and services	207,378	-	207,378	188,103	-	188,103
Direct lease costs	-	3,055	3,055	-	2,934	2,934
Professional and other fees	1,770	238	2,008	2,041	457	2,498
Salaries and benefits	28,460	2,335	30,795	24,330	3,205	27,535
General and administrative expenses	5,082	315	5,397	4,733	176	4,909
Interest and financing costs	19	477	496	19	498	517
Total costs and expenses	242,709	6,420	249,129	219,226	7,270	226,496
Segment earnings	\$15,231	\$2,822	\$18,053	\$10,187	\$5,342	\$15,529
Total assets	\$302,487	\$204,290	\$506,777	\$319,252	\$180,621	\$499,873

	Nine Months Ended December 31, 2013			Nine Months Ended December 31, 2012		
	Technology	Financing	Total	Technology	Financing	Total
Sales of product and services	\$764,067	\$-	\$764,067	\$712,513	\$-	\$712,513
Financing revenue	-	27,989	27,989	-	27,823	27,823
Fee and other income	5,478	94	5,572	4,953	1,511	6,464
Total revenues	769,545	28,083	797,628	717,466	29,334	746,800
Cost of sales, product and services	625,562	-	625,562	587,693	-	587,693
Direct lease costs	-	9,803	9,803	-	7,638	7,638
Professional and other fees	6,214	940	7,154	6,804	1,514	8,318
Salaries and benefits	83,603	7,559	91,162	72,826	7,982	80,808
General and administrative expenses	15,596	861	16,457	14,183	792	14,975
Interest and financing costs	64	1,325	1,389	70	1,298	1,368
Total costs and expenses	731,039	20,488	751,527	681,576	19,224	700,800
Segment earnings	\$38,506	\$7,595	\$46,101	\$35,890	\$10,110	\$46,000
Total assets	\$302,487	\$204,290	\$506,777	\$319,252	\$180,621	\$499,873

#### 14. BUSINESS COMBINATIONS

On November 14, 2013, our subsidiary, ePlus Technology, inc., acquired the assets of Advistor, Inc., a storage-focused solutions provider located in Pittsford, New York for \$2.8 million in cash. As a result of the acquisition, we expanded our existing presence in upstate New York and added enhanced storage engineering and sales delivery capabilities. The purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values on the transaction date, including identifiable intangible assets of \$1.6 million related to

customer relationships with an estimated useful life of 5 years, and other net assets of \$375 thousand. We recognized goodwill related to this transaction of \$0.9 million, which was assigned to our technology reporting unit. All goodwill associated with this acquisition is deductible for tax purposes.

21

---

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion is intended to further the reader's understanding of our consolidated financial condition and results of operations. It should be read in conjunction with the financial statements included in this quarterly report on Form 10-Q and our annual report on Form 10-K for the year ended March 31, 2013. These historical financial statements may not be indicative of our future performance. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risks described in Part I, Item 1A, "Risk Factors," in our 2013 Annual Report and subsequently filed Forms 10-Q.

EXECUTIVE OVERVIEW

Business Description

ePlus and its consolidated subsidiaries provide leading IT products and services, flexible leasing and financing solutions, and enterprise supply management software to enable our customers to optimize their IT infrastructure and supply chain processes. Our revenues are composed of sales of product and services, financing revenues and fee and other income. Our operations are conducted through two business segments: our technology segment and our financing segment.

Financial Summary

In recent years, the United States experienced substantial uncertainty in the economic environment, including financial market disruption. In addition, the debt crisis in certain countries in the European Union as well as the United States federal budget and debt ceiling debates has contributed to continuing economic weakness and uncertainty in the United States. A reoccurrence of the economic downturn could cause our current and potential customers to once again delay or reduce technology purchases and result in longer sales cycles, slower adoption of new technologies and increased price competition. Credit risk associated with our customers and vendors may also be adversely impacted. In addition, although we do not anticipate the need for additional capital in the near term due to our current financial position, a reoccurrence of the economic downturn may adversely affect our access to additional capital.

In 2012, IT spending in the United States increased by 4.0% as compared to 2011, according to industry analysts. Some analysts have lowered their forecast for overall IT spending for calendar year 2013 to less than 3.0% on average, with higher variability depending on industry. We believe that customers are continuing to focus on cost savings initiatives by utilizing technologies such as virtualization and cloud computing, and we continue to provide these and other advanced technology solutions to meet these needs.

During the three months ended December 31, 2013, total revenue increased 10.4% to \$267.2 million and total costs and expenses increased 10.0% to \$249.1 million, as compared to the same period last fiscal year. During the nine months ended December 31, 2013, total revenue increased 6.8% to \$797.6 million and total costs and expenses increased 7.2% to \$751.5 million, as compared to the same period last fiscal year. We had open orders of \$67.1 million as of December 31, 2013, compared to \$73.3 million as of December 31, 2012. Open orders represent orders received from our customers that have not been invoiced. These orders are normal course of business transactions, which we expect to be processed within our customary time frame. To drive our growth and to expand our geographical footprint and solution offerings, we increased hiring in our technology segment. We expanded from 869 employees as of December 31, 2012 to 961 employees as of December 31, 2013.

Gross margin for product and services was 18.9% and 17.5% during the three months ended December 31, 2013 and 2012, respectively. The increase in our gross margin was impacted by increased sales of third party software

assurance, maintenance and services, which are presented on a net basis as well as higher amount of vendor incentives earned. During the nine months ended December 31, 2013 and 2012, our gross margin for product and services was 18.1% and 17.5%, respectively. The increase was primarily due to higher sales of third party software assurance, maintenance and services, which are presented on a net basis and higher service margins. Our gross margin on sales of product and services increased sequentially from 17.8% for the three months ended September 30, 2013 to 18.9% for the three months ended December 31, 2013. Our gross margins on sales of product and services are subject to variability due to changes in the amount of vendor incentives earned, the pricing and product mix of sales to our customers, including the amount of third party software assurance, maintenance and services sold.

Net earnings for the three months ended December 31, 2013 increased 17.5% to \$10.6 million, compared to the three months ended December 31, 2012. Net earnings for both the nine months ended December 31, 2013 and 2012 were \$27.1 million. Cash and cash equivalents were \$40.5 million at December 31, 2013, down from \$52.7 million at March 31, 2013, in part due to the repurchase of \$7.8 million in treasury stock, the acquisition of Advistor for \$2.8 million, and purchases of equipment or software that we finance for our customers.

22

---

Table of Contents

## Business Segment Overview

## Technology Segment

The technology segment sells IT equipment, software and related services primarily to corporate customers, state and local governments, and higher education institutions on a nationwide basis, with geographic concentrations relating to our physical locations. The technology segment also provides Internet-based business-to-business supply chain management solutions for information technology products. Our technology segment derives revenue from the sales of new equipment and service engagements. These revenues are reflected on our consolidated statements of operations under sales of product and services and fee and other income. Customers who purchase IT equipment and services from us may have customer master agreements, or CMAs, with us, which stipulate the terms and conditions of the relationship. Some CMAs contain pricing arrangements, and most contain mutual voluntary termination clauses. Other customers place orders using purchase orders without a CMA in place or with other documentation customary for the business. Often, our work with governments is based on public bids and our written bid responses.

A substantial portion of our sales of product and services are from sales of Cisco, Hewlett Packard, and NetApp products, which represented 48.8%, 10.2%, and 8.7%, respectively, of our sales of product and services for the nine months ended December 31, 2013, as compared to 48.7%, 10.9%, and 6.9%, respectively, of our sales of product and services for the nine months ended December 31, 2012.

Included in sales of product and services are revenues derived from performing advanced professional services that may be bundled with sales of equipment, as well as managed services. Our professional service engagements are generally governed by statements of work, and are primarily fixed price (with allowance for changes); however, some service agreements are based on time and materials. Our managed service arrangements include network and infrastructure maintenance, monitoring and security contracts, which generally range between one to five years.

We endeavor to minimize the cost of sales in our technology segment through vendor consideration programs provided by manufacturers and other incentives provided by distributors. The programs we qualify for are generally set by our reseller authorization level with the manufacturer. The authorization level we achieve and maintain governs the types of products we can resell as well as such items as pricing received, funds provided for the marketing of these products and other special promotions. These authorization levels are achieved by us through sales volume, certifications held by sales executives or engineers and/or contractual commitments by us. The authorization levels are costly to maintain and these programs continually change and, therefore, there is no guarantee of future reductions of costs provided by these vendor consideration programs. We currently maintain the following authorization levels with our primary manufacturers:

Manufacturer	Manufacturer Authorization Level
Apple	Apple Authorized Corporate Reseller (National)
Cisco Systems	Cisco Gold DVAR (National)
	Advanced Wireless LAN
	Advanced Unified Communications
	Advanced Data Center Storage Networking
	Advanced Routing and Switching
	Advanced Security
	ATP Video Surveillance
	ATP Cisco Telepresence Video Master Partner
	ATP Rich Media Communications
	Master Cloud Builder Specialization
	Master Managed Services Partner

	Master Security Specialization
	Master UC Specialization
Citrix Systems, Inc.	Citrix Platinum Partner (National)
EMC	EMC Velocity Signature Partner (National)
Hewlett Packard	Platinum - Converged Infrastructure Partner (National)
IBM	Premier IBM Business Partner (National)
Lenovo	Lenovo Premium (National)
Microsoft	Microsoft Gold (National)
NetApp	NetApp STAR Partner (National)
Oracle Gold Partner	Sun SPA Executive Partner (National)
	Sun National Strategic Data Center Authorized
VMware	National Premier Partner

## Table of Contents

We also generate revenue in our technology segment through hosting arrangements and sales of our Internet-based business-to-business supply chain management software, agent fees received from various manufacturers, support fees, and warranty reimbursements. Our revenues include earnings from certain transactions that are infrequent, and there is no guarantee that future transactions of the same nature, size or profitability will occur. Our ability to consummate such transactions, and the timing thereof, may depend largely upon factors outside the direct control of management. The earnings from these types of transactions in a particular period may not be indicative of the earnings that can be expected in future periods. These revenues are reflected on our unaudited condensed consolidated statements of operations under fee and other income.

## Financing Segment

The financing segment offers financing solutions to domestic governmental entities and corporations nationwide and in certain other countries. The financing segment derives revenue primarily from leasing IT and medical equipment and the disposition of that equipment at the end of the lease. The financing segment also derives revenues from the financing of third-party software licenses, software assurance, maintenance and other services through notes receivable. These revenues are included in financing revenues on our unaudited condensed consolidated statements of operations.

Financing revenues consists of interest income on notes receivable, direct financing and sales-type leases, revenue from operating leases, net gains or losses on the transfer of financial assets, or the sales of equipment at the end of a lease, as well as other financing revenue.

We classify investments in leases as a direct financing lease, sales-type lease, or operating lease, as appropriate.

For direct financing and sales-type leases, we record the net investment in leases, which consists of the sum of the minimum lease payments, initial direct costs (direct financing leases only), and unguaranteed residual value (gross investment) less the unearned income. The unearned income is amortized over the life of the lease using the interest method. Under sales-type leases, the difference between the present value of minimum lease payments and the cost of the leased property plus initial direct costs (net margins) is recorded as profit at the inception of the lease.

For operating leases, rental amounts are accrued on a straight-line basis over the lease term and are recognized as financing revenue.

Our financing segment enters into arrangements to assign the rights to contractual payments due from our customers to third party financial institutions. We account for the transfer of these financial assets as sales or secured borrowings in accordance with Transfers and Servicing in the Codification. For transfers accounted for as a secured borrowing, the corresponding investments serve as collateral for non-recourse notes payable. For transfers accounted for as sales, we recognize a net gain or loss on the sale, which is presented within the financing revenues in the unaudited condensed consolidated statement of operations.

Our financing segment sells the equipment underlying a lease to the lessee or a third-party other than the lessee. These sales generally occur at the end of the lease term and revenues from the sales of such equipment are recognized at the date of sale. The net gain or loss on these transactions is presented within financing revenue in our unaudited condensed consolidated statement of operations.

At times we sell the title to equipment under lease to a third-party and retain remarketing rights, which includes rights to a certain amount of the proceeds upon sale of the equipment. Remarketing fees earned are reflected in our unaudited condensed consolidated statements of operations under fee and other income.

Our financing revenues include earnings from certain transactions that are inconsistent, such as net gains on the transfer of financial assets, net gains from sales of the equipment underlying a lease and remarketing fees. There is no



guarantee that future transactions of the same nature, size or profitability will occur. Our ability to consummate such transactions, and the timing thereof, may depend largely upon factors outside the direct control of management. The earnings from these types of transactions in a particular period may not be indicative of the earnings that can be expected in future periods.

#### Fluctuations in Revenues

Our results of operations are susceptible to fluctuations for a number of reasons, including, without limitation, customer demand for our products and services, supplier costs, changes in vendor incentive programs, interest rate fluctuations, general economic conditions, and differences between estimated residual values and actual amounts realized related to the equipment we lease. Operating results could also fluctuate as a result of net gains from the transfer of financial assets, or a sale of the equipment on lease prior to the expiration of the lease term to the lessee or to a third-party or from other post-term events.

24

---

## Table of Contents

We expect to continue to expand by opening new sales locations and hiring additional staff for specific targeted market areas in the near future whenever we can find both experienced personnel and desirable geographic areas. These investments may reduce our results from operations in the short term.

## RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

There were no new accounting standards issued during the three and nine months ended December 31, 2013 that materially impacted our condensed consolidated financial statements or are likely to materially impact our financial statements or related disclosures in a future period.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, or different assumptions were made, it is possible that alternative accounting policies would have been applied, resulting in a change in financial results. On an ongoing basis, we reevaluate our estimates, including those related to revenue recognition, residual values, vendor consideration, lease classification, goodwill and intangibles, reserves for credit losses and income taxes specifically relating to uncertain tax positions. We base estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. For all such estimates, we caution that future events rarely develop exactly as forecasted, and therefore, these estimates may require adjustment.

We consider the following accounting policies important in understanding the potential impact of our judgments and estimates on our operating results and financial condition. For additional information on these and other accounting policies, see Note 1, "Organization and Summary of Significant Accounting Policies" to the unaudited condensed consolidated financial statements included elsewhere in this report.

**REVENUE RECOGNITION.** The majority of our revenues are derived from the following sources: sales of third-party products, software, software assurance, maintenance and services; sales of our services and software, and financing revenues. The products and services we sell, and the manner in which they are bundled, are technologically complex and the characterization of these products and services require judgment in order to apply revenue recognition policies. For all these revenue sources, we determine whether we are the principal or agent in accordance with Codification Topic, Revenue Recognition, Subtopic Principal Agent Considerations. Our revenue recognition policies vary based upon these revenue sources and the mischaracterization of these products and services could result in misapplication of revenue recognition policies.

Generally, sales of third-party products and software are recognized when the title and risk of loss are passed to the customer, there is persuasive evidence of an arrangement for sale, delivery has occurred, the sales price is fixed or determinable and collectability is reasonably assured. Using these tests, the vast majority of our sales are recognized upon delivery due to our sales terms with our customers. For proper cutoff, we estimate the product delivered to our customers at the end of each quarter based upon an analysis of current quarter and historical delivery dates.

We sell software assurance, maintenance and service contracts where the services are performed by a third party. Software assurance is a service that allows customers to upgrade at no additional cost to the latest technology, if new applications are introduced during the period for which the software assurance is in effect. As we enter into contracts with third-party service providers, we evaluate whether we are acting as a principal or agent in the transaction. We conclude that we are acting as an agent and recognize revenue on a net basis at the date of sale when we are not responsible for the day-to-day provision of services in these arrangements and our customers are aware that the third-party service provider will provide the services to them.

We also sell services that are performed by us in conjunction with product sales. We allocate the total arrangement consideration to the deliverables based on an estimated selling price of our products and services. We determine the estimated selling price using cost plus a reasonable margin for each deliverable, which is based on our established policies and procedures for providing customers with quotes, as well as historical gross margins for our products and services. Revenue from the sales of products is generally recognized upon delivery to the customers and revenue for the services performed by us is generally recognized when the services are complete, which normally occurs within 90 days after the products are delivered to the customer.

## Table of Contents

Financing revenues include income earned from investments in leases, leased equipment, and financed third-party software and services. We classify our investments in leases and leased equipment as either direct financing lease, sales-type lease, or operating lease, as appropriate. Revenue on direct financing and sales-type leases is deferred at the inception of the leases and is recognized over the term of the lease using the interest method. Revenue on operating leases is recorded on a straight line basis over the lease term. We classify third-party software, maintenances, and services that we finance for our customers as notes receivable and recognize interest income over the term of the arrangement using the effective interest method.

We account for the transfer of financial assets as sales or secured borrowings in accordance with Transfers and Servicing in the Codification. For transfers that qualify for sale treatment, we recognize a net gain on the effective date of the transfer, which is presented within financing revenues in our unaudited condensed consolidated statements of operations.

**RESIDUAL VALUES.** Residual values represent our estimated value of the equipment at the end of the initial lease term. Our estimated residual values will vary, both in amount and as a percentage of the original equipment cost, and depend upon several factors, including the equipment type, manufacturer's discount, market conditions, lease term, equipment supply and demand, and new product announcements by manufacturers.

We evaluate residual values on a quarterly basis and record any required impairments of residual value, in the period in which the impairment is determined. No upward adjustment to residual values is made subsequent to lease inception.

**GOODWILL AND OTHER INTANGIBLE ASSETS.** Goodwill represents the premium paid over the fair value of net tangible and intangible assets we have acquired in business combinations. We review our goodwill for impairment annually, or more frequently if indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in our share price and market capitalization, a decline in our expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition, and/or slower growth rates, among others.

We first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Qualitative factors we consider include, but are not limited to, macroeconomic conditions, industry and market conditions, company specific events, changes in circumstances, after tax cash flows and market capitalization. If the qualitative factors indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we perform the two step process to assess our goodwill for impairment. First, we compare the fair value of each of our reporting units with its carrying value. We estimate the fair value of the reporting unit using various valuation methodologies, including discounted expected future cash flows. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired, and no further testing is necessary. If the net book value of a reporting unit exceeds its fair value, we perform a second test to measure the amount of impairment loss, if any. To measure the amount of any impairment loss, we determine the fair value of goodwill in the same manner as if our reporting unit were being acquired in a business combination. Specifically, we allocate the fair value of the reporting unit to all of the assets and liabilities of that unit, including any unrecognized intangible assets, in a hypothetical calculation that would yield the estimated fair value of goodwill. If the estimated fair value of goodwill is less than the goodwill recorded on our balance sheet, we record an impairment charge for the difference.

**VENDOR CONSIDERATION.** We receive payments and credits from vendors and distributors, including consideration pursuant to volume sales incentive programs, volume purchase incentive programs and shared marketing expense programs. Many of these programs extend over one or more quarters' sales activities and are primarily formula-based. Different programs have different vendor/program specific goals to achieve. We estimate the amount of vendor consideration earned when it is probable and reasonably estimable using the best information available, including historical data.

Vendor consideration received pursuant to volume sales incentive programs is recognized as a reduction to cost of sales of product and services on our unaudited condensed consolidated statements of operations. Vendor consideration received pursuant to volume purchase incentive programs is allocated to inventories based on the applicable incentives from each vendor and is recorded in cost of sales of product and services, as the inventory is sold. Vendor consideration received pursuant to shared marketing expense programs is recorded as a reduction of the related selling and administrative expenses in the period the program takes place only if the consideration represents a reimbursement of specific, incremental, identifiable costs. Consideration that exceeds the specific, incremental, identifiable costs is classified as a reduction of cost of sales, product and services on our unaudited condensed consolidated statements of operations.

Table of Contents

**RESERVES FOR CREDIT LOSSES.** We maintain our reserves for credit losses at a level believed by management to be adequate to absorb potential losses inherent in the respective balances. We assign an internal credit quality rating to all new customers and update these ratings regularly, but no less than annually. Management's determination of the adequacy of the reserve for credit losses for our accounts and notes receivable is based on the age of the receivable balance, the customer's credit quality rating, an evaluation of historical credit losses, current economic conditions, and other relevant factors.

Management's determination of the adequacy of the reserve for credit losses for minimum lease payments associated with investments in direct financing and sales-type leases may be based on the following factors: an internally assigned credit quality rating, historical credit loss experience, current economic conditions, volume, growth, the composition of the lease portfolio, the fair value of the underlying collateral, and the funding status (i.e. not funded, funded on a recourse or partial recourse basis, or funded on non-recourse basis), and other relevant factors.

The reserve for credit losses as of December 31, 2013 and March 31, 2013 included a specific reserve of \$2.8 million, due to one specific customer, which filed for bankruptcy in May 2012.

**RESERVES FOR SALES RETURNS.** Sales are reported net of returns and allowances, which are maintained at a level believed by management to be adequate to absorb potential returns of sales of product and services. Management's determination of the adequacy of the reserve is based on an evaluation of historical sales returns and other relevant factors. These determinations require considerable judgment in assessing the ultimate potential for sales returns and include consideration of the type and volume of product sold.

**INCOME TAXES.** We make certain estimates and judgments in determining income tax expense for financial statement reporting purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which principally arise from differences in the timing of recognition of revenue and expense for tax and financial statement reporting purposes. We also must analyze income tax reserves, as well as determine the likelihood of recoverability of deferred tax assets, and adjust any valuation allowances accordingly.

Considerations with respect to the recoverability of deferred tax assets include the period of expiration of the tax asset, planned use of the tax asset, and historical and projected taxable income as well as tax liabilities for the tax jurisdiction to which the tax asset relates. Valuation allowances are evaluated periodically and will be subject to change in each future reporting period as a result of changes in one or more of these factors. The calculation of our tax liabilities also involves considering uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain income tax positions based on our estimate of whether, and the extent to which, additional taxes will be required.

**BUSINESS COMBINATIONS.** We account for business combinations using the acquisition method, which requires that the total purchase price of each of the acquired entities be allocated to the assets acquired and liabilities assumed based on their fair values at the acquisition date. The purchase price of the acquired entities may include an estimate of the fair value of contingent consideration. The allocation process requires an analysis of intangible assets, customer relationships, trade names, acquired contractual rights and assumed contractual commitments and legal contingencies to identify and record all assets acquired and liabilities assumed at their fair value.

Any premium over the fair value of assets acquired less the liabilities assumed is recorded as goodwill. To the extent the purchase price is less than the fair value of assets acquired and liabilities assumed we recognize a gain in our statements of operations. The results of operations for an acquired company are included in our financial statements from the date of acquisition.

Table of Contents

## RESULTS OF OPERATIONS

The Three and Nine months Ended December 31, 2013 Compared to the Three and Nine months Ended December 31, 2012

## Technology Segment

The results of operations for our technology segment for the three and nine months ended December 31, 2013 and 2012 were as follows (dollars in thousands):

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2013	2012	Change		2013	2012	Change	
Sales of product and services	\$255,747	\$228,053	\$27,694	12.1 %	\$764,067	\$712,513	\$51,554	7.2 %
Fee and other income	2,193	1,360	833	61.3 %	5,478	4,953	525	10.6 %
Total revenues	257,940	229,413	28,527	12.4 %	769,545	717,466	52,079	7.3 %
Cost of sales, product and services	207,378	188,103	19,275	10.2 %	625,562	587,693	37,869	6.4 %
Professional and other fees	1,770	2,041	(271 )	(13.3 %)	6,214	6,804	(590 )	(8.7 %)
Salaries and benefits	28,460	24,330	4,130	17.0 %	83,603	72,826	10,777	14.8 %
General and administrative	5,082	4,733	349	7.4 %	15,596	14,183	1,413	10.0 %
Interest and financing costs	19	19	-	0.0 %	64	70	(6 )	(8.6 %)
Total costs and expenses	242,709	219,226	23,483	10.7 %	731,039	681,576	49,463	7.3 %
Segment earnings	\$15,231	\$10,187	\$5,044	49.5 %	\$38,506	\$35,890	\$2,616	7.3 %

Total revenues. Total revenues during the three months ended December 31, 2013 were \$257.9 million compared to \$229.4 million during the three months ended December 31, 2012, an increase of 12.4%, which was due to increases in demand for our products and services. Total revenues increased 7.3% during the nine months ended December 31, 2013 to \$769.5 million compared to \$717.5 million during the nine months ended December 31, 2012. The increase in revenues for both the quarter and year-to-date periods was primarily from our Fortune 100 customers, as well as increases in revenues from the sale of ePlus professional services. We experienced year over year increases in the sales of product and services for all the quarters ended from December 31, 2012 through December 31, 2013. The sequential and year over year change in sales of product and services is summarized below:

Quarter Ended	Sequential Year over Year	
December 31, 2013	(2.1%)	12.1%
September 30, 2013	5.8%	4.4%
June 30, 2013	10.4%	5.4%
March 31, 2013	(1.9%)	6.6%
December 31, 2012	(8.8%)	7.4%

Total costs and expenses. Total costs and expenses for the three months ended December 31, 2013 increased \$23.5 million, or 10.7%, to \$242.7 million due to increases in cost of sales of product and services, salaries and benefits and general and administrative expenses. Total costs and expenses for the nine months ended December 31, 2013 increased \$49.5 million, or 7.3%, to \$731.0 million due to increases in cost of sales of product and services, salaries and benefits and general and administrative expenses. The increase in cost of sales for the quarter and year to date was primarily due to the increase in sales in these periods.

Our gross margin for product and services was 18.9% and 17.5% during the three months ended December 31, 2013 and 2012, respectively. The increase in our gross margin was impacted by an increase in sales of third party software

assurance, maintenance and services, which are presented on a net basis, as well as improvements in product margins. During the nine months ended December 31, 2013 and 2012, our gross margin for product and services was 18.1% and 17.5%, respectively. The increase was due to growth in sales of ePlus professional service revenues, as well as sales of third party software assurance, maintenance and services. Our gross margin on sales of product and services increased sequentially from 17.8% for the three months ended September 30, 2013 to 18.9% for the three months ended December 31, 2013. This increase was due to an increase in sales of third party software assurance, maintenance and services which are presented on a net basis, and higher product margins. The change in the amount of vendor incentives earned during the three and nine months ended December 31, 2013 resulted in a 0.2% and 0.1% decrease, respectively, in gross margins from the prior year. There are ongoing changes to the incentives programs offered to us by our vendors. Accordingly, if we are unable to maintain the level of manufacturer incentives we are currently receiving, gross margins may decrease.



Table of Contents

Professional and other fees decreased \$0.3 million, or 13.3%, to \$1.8 million for the three months ended December 31, 2013, compared to \$2.0 million during the three months ended December 31, 2012. This decrease was primarily due to a decrease of \$0.2 million in fees related to the patent infringement litigation. Professional and other fees decreased \$0.6 million, or 8.7%, to \$6.2 million for the nine months ended December 31, 2013, compared to \$6.8 million during the nine months ended December 31, 2012. This decrease was primarily due to fees of \$0.8 million related to the restatement of our financial statements incurred in the same period of the prior year.

Salaries and benefits expense increased \$4.1 million, or 17.0%, to \$28.5 million during the three months ended December 31, 2013, compared to \$24.3 million during the three months ended December 31, 2012. For the nine months ended December 31, 2013, salaries and benefits expense increased \$10.8 million, or 14.8%, to \$83.6 million, compared to \$72.8 million during the nine months ended December 31, 2012. These increases were driven by increases in the number of employees and related benefits as well as commission expenses. Our technology segment had 903 employees as of December 31, 2013, an increase of 93 from 810 at December 31, 2012, of which 18 employees were added from the acquisition of AdviStor, Inc. Most of the increase in personnel relates to sales and engineering positions. We continue to invest in sales and engineering talent in order to expand our geographical presence in the continental U.S. as well as extend our advanced technology solutions offerings. In addition, commission expense increased for the three and nine months ended December 31, 2013 due to the increase in gross profits.

General and administrative expenses increased \$0.3 million, or 7.4%, and \$1.4 million, or 10.0%, during the three months and nine months ended December 31, 2013, respectively, over the same periods for prior year. These increases were primarily due to increases in office locations and our sales force and engineering team as a result of our continued expansion efforts, which resulted in higher rent and travel expenses. In addition, we recorded an adjustment for contingent consideration related to a previous acquisition, which was settled and paid during the current fiscal year.

Segment earnings. As a result of the foregoing, segment earnings were \$15.2 million for the quarter ended December 31, 2013, an increase of \$5.0 million, or 49.5%, and \$38.5 million for the nine months ended December 31, 2013, an increase of \$2.6 million, or 7.3%, over the prior year periods.

**Financing Segment**

The results of operations for our financing segment for the three and nine months ended December 31, 2013 and 2012 were as follows (dollars in thousands):

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2013	2012	Change		2013	2012	Change	
Financing revenue	\$9,228	\$12,510	\$(3,282)	(26.2 %)	\$27,989	\$27,823	\$166	0.6 %
Fee and other income	14	102	(88 )	(86.3 %)	94	1,511	(1,417)	(93.8 %)
Total revenues	9,242	12,612	(3,370)	(26.7 %)	28,083	29,334	(1,251)	(4.3 %)
Direct lease costs	3,055	2,934	121	4.1 %	9,803	7,638	2,165	28.3 %
Professional and other fees	238	457	(219 )	(47.9 %)	940	1,514	(574 )	(37.9 %)
Salaries and benefits	2,335	3,205	(870 )	(27.1 %)	7,559	7,982	(423 )	(5.3 %)
General and administrative	315	176	139	79.0 %	861	792	69	8.7 %
Interest and financing costs	477	498	(21 )	(4.2 %)	1,325	1,298	27	2.1 %
Total costs and expenses	6,420	7,270	(850 )	(11.7 %)	20,488	19,224	1,264	6.6 %
Segment earnings	\$2,822	\$5,342	\$(2,520)	(47.2 %)	\$7,595	\$10,110	\$(2,515)	(24.9 %)

Total revenues. Total revenues decreased by \$3.4 million, or 26.7%, to \$9.2 million for the three months ended December 31, 2013, as compared to the three months ended December 31, 2012. Financing revenues decreased \$3.3 million, or 26.2% for the three months ended December 31, 2013, as compared to the prior year primarily due to net gains recognized during the quarter ended December 31, 2012 from the early termination of certain lease agreements and the buyout of the related equipment. During the quarters ended December 31, 2013 and 2012, we recognized net gains on sales of financial assets of \$2.3 million and \$2.7 million, respectively, and total proceeds from these sales were \$45.7 million and \$48.1 million, respectively.

## Table of Contents

Total revenues decreased by \$1.3 million, or 4.3%, to \$28.1 million for the nine months ended December 31, 2013, as compared to the prior year. Financing revenues increased \$0.2 million, or 0.6%, for the nine months ended December 31, 2013, as compared to the prior year. For the nine months ended December 31, 2013 and 2012, we recognized net gains on sales of financial assets of \$7.9 million and \$4.4 million, respectively, and total proceeds from these sales were \$168.1 million and \$91.5 million, respectively. Offsetting this were lower gains from sales of leased equipment, due to the early termination of certain lease agreements and buyout of the related equipment in the prior year. At December 31, 2013, we had \$140.1 million of investment in notes and leases, compared to \$123.1 million at December 31, 2012, an increase of \$17.0 million, or 13.8%.

Fee and other income decreased \$0.1 million and \$1.4 million for the three months and nine months ended December 31, 2013, respectively, over prior year due to decreases in remarketing income and broker fee income.

Total costs and expenses. For the three months ended December 31, 2013, total costs and expenses decreased \$0.9 million, or 11.7%. Direct lease costs increased \$0.1 million, or 4.1%, to \$3.1 million due to depreciation expense related to increases in operating leases. Salary and benefits expense decreased \$0.9 million, or 27.1% to \$2.3 million due to lower commissions and bonuses as a result of the decrease in revenues during the period. Professional and other fees decreased \$0.2 million, or 47.9% due to lower broker and outside service fees.

Compared to the nine months ended December 31, 2012, total costs and expenses for the nine months ended December 31, 2013 increased \$1.3 million, or 6.6%. Direct lease costs increased \$2.2 million, or 28.3%, to \$9.8 million due to depreciation expense related to increases in operating leases. Professional and other fees decreased \$0.6 million, or 37.9% due to lower broker and legal fees. Salaries and benefits expenses decreased \$0.4 million, or 5.3%, to \$7.6 million due to lower commissions and bonuses as a result of the decrease in revenues during the period. As December 31, 2013 we had 58 employees, down from 59 employed as of December 31, 2012.

Interest and financing costs were consistent with prior periods. Non-recourse and recourse notes payable was \$53.4 million at December 31, 2013, as compared to \$36.2 million at December 31, 2012. Our weighted average interest rate for notes payable was 3.49% and 4.83%, as of December 31, 2013 and December 31, 2012, respectively.

Segment earnings. As a result of the foregoing, segment earnings were \$2.8 million and \$7.6 million for the three and nine months ended December 31, 2013, respectively, compared to \$5.3 million and \$7.6 million for the three and nine months ended December 31, 2012, respectively.

## Consolidated

Income taxes. Our provision for income tax expense was \$7.4 million and \$19.0 million for the three months and nine months ended December 31, 2013, respectively, as compared to \$6.5 million and \$18.9 million for the same periods last year. Our effective income tax rates for the three months and nine months ended December 31, 2013 were 41.2% and 41.3%, respectively, as compared to 41.8% and 41.0% for the three months and nine months ended December 31, 2012. The change in our effective income tax rate was due primarily to an increase in non-deductible compensation.

Net earnings. The foregoing resulted in net earnings of \$10.6 million for the three months ended December 31, 2013, an increase of 17.5%, as compared to \$9.0 million during the three months ended December 31, 2012. For the nine months ended December 31, 2013, net earnings were \$27.1 million, a decrease of 0.3%, or \$77 thousand compared to the nine months ended December 31, 2012.

Basic and fully diluted earnings per common share were \$1.33 and \$1.32, respectively, for the three months ended December 31, 2013, as compared to \$1.11 and \$1.11, respectively, for the three months ended December 31, 2012. Basic and fully diluted earnings per common share were \$3.37 and \$3.34, respectively, for the nine months ended December 31, 2013, as compared to \$3.42 and \$3.38, respectively, for the nine months ended December 31, 2012.

Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the three months ended December 31, 2013 were 7,950,354 and 7,982,418, respectively. Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the three months ended December 31, 2012 were 7,843,153 and 7,843,153, respectively.

Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the nine months ended December 31, 2013 were 7,946,746 and 8,012,840, respectively. Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the nine months ended December 31, 2012 were 7,778,174 and 7,867,982, respectively.

30

---

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Overview

Our primary sources of liquidity have historically been cash and cash equivalents, internally generated funds from operations, and borrowings, both non-recourse and recourse. We have used those funds to meet our capital requirements, which have historically consisted primarily of working capital for operational needs, capital expenditures, purchases of equipment or software that are financed for our customers, payments of principal and interest on indebtedness outstanding, acquisitions and the repurchase of shares of our common stock.

Our subsidiary ePlus Technology, inc., part of our technology segment, finances its operations with funds generated from operations, and with a credit facility with GE Commercial Distribution Finance, or GECDF, which is described in more detail below. There are two components of this facility: (1) a floor plan component; and (2) an accounts receivable component. After a customer places a purchase order with us and we have completed our credit check, we place an order for the equipment with one of our vendors. Generally, most purchase orders from us to our vendors are first financed under the floor plan component and reflected in “accounts payable—floor plan” in our unaudited condensed consolidated balance sheets. Payments on the floor plan component are due on three specified dates each month, generally 30-60 days from the invoice date. On the due date of the invoices financed by the floor plan component, the invoices are paid by the accounts receivable component of the credit facility. The balance of the accounts receivable component is then reduced by payments from our available cash. The outstanding balance under the accounts receivable component is recorded as recourse notes payable on our unaudited condensed consolidated balance sheets. There was no outstanding balance at December 31, 2013 or March 31, 2013, while the maximum credit limit was \$30.0 million for both periods. The borrowings and repayments under the floor plan component are reflected as “net borrowings on floor plan facility” in the cash flows from financing activities section of our unaudited condensed consolidated statements of cash flows.

Most customer payments in our technology segment are remitted to our lockboxes. Once payments are cleared, the monies in the lockbox accounts are automatically transferred to our operating account on a daily basis. On the due dates of the floor plan component, we make cash payments to GECDF. These payments from the accounts receivable component to the floor plan component and repayments from our cash are reflected as “net borrowings on floor plan facility” in the cash flows from financing activities section of our unaudited condensed consolidated statements of cash flows. We engage in this payment structure in order to minimize our interest expense and bank fees in connection with financing the operations of our technology segment.

We believe that cash on hand, and funds generated from operations, together with available credit under our credit facility, will be sufficient to finance our working capital, capital expenditures and other requirements for at least the next 12 calendar months.

Our working capital generally fluctuates as a result of changes in demand for our products and services; however, specific changes in certain elements of working capital may not coincide with changes in other elements of our financial statements. The increase in accounts receivable—other is due to non-interest bearing advances made by our financing segment to third parties, which are generally due within 90 days. In our technology segment, amounts included in accounts receivable-other include vendor consideration earned but not received, which are generally recorded as reductions to inventory or cost of goods sold.

Our accounts receivable—trade increased by \$40.7 million, or 23.5%, from March 31, 2013 due to higher gross sales volume as well as the timing of purchases from our customers. Our gross revenues for the third quarter of fiscal 2014 were 13.9% higher than the fourth quarter of fiscal 2013. In addition, a higher proportion of sales during our third quarter tend to occur in the latter half of the quarter, as many of our customers approach their fiscal year end. We experienced increases in both accounts payable—trade and accounts payable—floor plan for the same reasons. Amounts in

inventory increased \$9.5 million from March 31, 2013 due to the timing of deliveries to our customers. Our accounts payable—floor plan consists of purchases through the GECDF credit facility, which are generally paid within 30-60 days from the invoice date. Changes in accounts payable—equipment is due to the timing of payments for equipment or software that is financed for our customers.

Our ability to continue to fund our planned growth, both internally and externally, is dependent upon our ability to generate sufficient cash flow from operations or to obtain additional funds through equity or debt financing, or from other sources of financing, as may be required. While at this time we do not anticipate requiring any additional sources of financing to fund operations, if demand for IT products declines, our cash flows from operations may be substantially affected.

Table of Contents

## Cash Flows

The following table summarizes our sources and uses of cash over the periods indicated (in thousands):

	Nine Months Ended December 31,	
	2013	2012
Net cash (used in) provided by operating activities	\$(26,766)	\$13,784
Net cash (used in) investing activities	(21,228)	(933 )
Net cash provided by (used in) financing activities	35,766	(4,477 )
Effect of exchange rate changes on cash	6	1
Net (decrease) increase in cash and cash equivalents	\$(12,222)	\$8,375

Net cash (used in) provided by operating activities. Cash used in operating activities totaled \$26.8 million during the nine months ended December 31, 2013, compared to cash provided by operations of \$13.8 million during the same period last year. Cash used in operating activities during the nine months ended December 31, 2013 related to increases in accounts receivable—trade of \$43.2 million, and increases in investment in direct financing and sale-type leases-net of \$20.4 million; these increases are partially offset by increases in accounts payable—equipment and accounts payable—trade of \$13.3 million and salaries and commission payable, accrued expenses and other liabilities and deferred revenue of \$5.5 million.

Cash provided by operations during the nine months ended December 31, 2012 resulted primarily from increases accounts payable—equipment and accounts payable—trade of \$18.5 million, and salaries and commissions payable in accounts receivable—trade and other of \$35.4 million, reductions in direct financing and sale type leases of \$11.2 million and depreciation and amortization expenses of \$8.7 million, partially offset by increases in and accounts receivable—trade and other of \$47.1 million, deferred costs and other assets of \$34.0 million, and notes receivable of \$1.0 million.

Net cash used in investing activities. Cash used in investing activities was \$21.2 million during the nine months ended December 31, 2013, compared to cash used in investing activities of \$0.9 million during the same period last year. Cash used in investing activities during the nine months ended December 31, 2013 was primarily driven by issuance of notes receivable (net of issuance, proceeds from the sale on notes, and repayments) of \$6.3 million, purchase of assets to be leased of \$8.3 million, and purchases of property, equipment and operating lease equipment of \$7.9 million. Cash used by investing activities during the nine months ended December 31, 2012 was primarily driven by a net increase in notes receivable of \$8.7 million, offset by a decrease in short-term investments of \$6.2 million, and by the sale of property, equipment and operating lease equipment of \$1.6 million.

Net cash provided by (used in) financing activities. Cash provided by financing activities was \$35.8 million during the nine months ended December 31, 2013, which was due to net borrowings on the floor plan facility of \$18.5 million and net borrowings of non-recourse and recourse notes payable of \$26.8 million, partially offset by the purchase of treasury stock of \$10.3 million. In the prior year, we had net cash used by financing activities of \$4.5 million primarily due to dividends paid of \$20.1 million, and net borrowings on floor plan facility of \$4.2 million, offset by net repayments on notes payable of \$20.2 million and repurchase of common stock of \$1.9 million.

## Non-Cash Activities

We transfer financial assets to third-party financial institutions, some of which are accounted for as non-recourse notes payable financing activities. As a condition to the agreement, certain financial institutions may request the customer remit their payments to a trustee rather than to us, and the trustee pays the financial institution. Alternatively, if the

structure of the agreement does not require a trustee, the customer will continue to make payments to us, and we will remit the payment to the financial institution. The economic impact to us under either structure is similar, in that the assigned contractual payments are paid by the customer and remitted to the lender to pay down the corresponding non-recourse notes payable. However, these structures are classified differently within our unaudited condensed consolidated statement of cash flows. More specifically, we are required to exclude non-cash transactions from our unaudited condensed consolidated statement of cash flows, so payments made by our customer to the trustee are excluded from our operating or investing cash receipts and the corresponding re-payment of the non-recourse notes payable from the trustee to the third party financial institution are excluded from our cash flows from financing activities. Given that the transfer of these payments is economically the same regardless of the structure of the payments, we evaluate our cash flows from operating, investing and financing activities as if the transfer had been structured without an intermediary.

32

---



Table of Contents

The non-GAAP financial measure for our cash flows from operating activities for the nine months ended December 31, 2013 and 2012 is as follows (in thousands):

	Nine Months Ended December 31, 2013      2012	
GAAP: net cash provided by (used in) operating activities	\$(26,766)	\$13,784
Principal payments from customers directly to lenders	14,516	11,374
Non-GAAP: adjusted net cash provided by (used in) operating activities	\$(12,250)	\$25,158

The non-GAAP financial measure for our cash flows from investing activities for the nine months ended December 31, 2013 and 2012 is as follows (in thousands):

	Nine Months Ended December 31, 2013      2012	
GAAP: net cash (used in) investing activities	\$(21,228)	\$(933)
Principal payments from customers directly to lenders	631	-
Non-GAAP: adjusted net cash (used in) investing activities	\$(20,597)	\$(933)

The non-GAAP financial measure for our cash flows from financing activities for the nine months ended December 31, 2013 and 2012 is as follows (in thousands):

	Nine Months Ended December 31, 2013      2012	
GAAP: net cash provided by (used in) financing activities	\$35,766	\$(4,477)
Principal payments from customers directly to lenders	(15,147)	(11,374)
Non-GAAP: adjusted net cash provided by (used in) financing activities	\$20,619	\$(15,851)

A “non-GAAP financial measure” is a numerical measure of a company’s historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with U.S. GAAP in the statement of income, balance sheet or statement of cash flows of the company; or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented. We use the financial measures in our internal evaluation and management of our business. We believe that these measures and the information they provide are useful to investors because they permit investors to view our performance using the same tools that we use and to better evaluate our ongoing business performance. These measures should not be considered an alternative to measurements required by U.S. GAAP, such as cash provided by (used in) operating activities, cash provided by (used in) investing activities and cash provided by (used in) financing activities. These non-GAAP measures are unlikely to be comparable to non-GAAP information provided by other companies.

### Liquidity and Capital Resources

We may utilize non-recourse notes payable to finance approximately 80% to 100% of the purchase price of the products being leased by our customers. Any balance of the purchase price remaining after non-recourse funding and any upfront payments received from the lessee (our equity investment in the equipment) must generally be financed

by cash flows from our operations, the sale of the equipment leased to third parties, or other internal means. Although we expect that the credit quality of our leases and our residual return history will continue to allow us to obtain such financing, such financing may not be available on acceptable terms, or at all.

The financing necessary to support our leasing activities has been provided by our cash and non-recourse borrowings. We monitor our exposure closely. Historically, we have obtained mostly non-recourse borrowings from banks and finance companies. We continue to be able to obtain financing through our traditional lending sources. Non-recourse financings are loans whose repayment is the responsibility of a specific customer, although we may make representations and warranties to the lender regarding the specific contract or have ongoing loan servicing obligations. Under a non-recourse loan, we borrow from a lender an amount based on the present value of the contractually committed lease payments under the lease at a fixed rate of interest, and the lender secures a lien on the financed assets. When the lender is fully repaid from the lease payments, the lien is released and all further rental or sale proceeds are ours. We are not liable for the repayment of non-recourse loans unless we breach our representations and warranties in the loan agreements. The lender assumes the credit risk of each lease, and the lender's only recourse, upon default by the lessee, is against the lessee and the specific equipment under lease. At December 31, 2013, our non-recourse notes payable increased 25.3% to \$50.5 million, as compared to \$40.3 million at March 31, 2013. Recourse notes payable increased 96.4% to \$2.9 million from March 31, 2013 to December 31, 2013.

33

---

## Table of Contents

Whenever desirable, we arrange for equity investment financing, which includes selling lease payments, including the residual portions, to third parties and financing the equity investment on a non-recourse basis. We generally retain customer control and operational services, and have minimal residual risk. We usually reserve the right to share in remarketing proceeds of the equipment on a subordinated basis after the investor has received an agreed-to return on its investment.

### Credit Facility — ePlus Technology, inc.

Our subsidiary, ePlus Technology, inc., has a financing facility from GECDF to finance its working capital requirements for inventories and accounts receivable. There are two components of this facility: (1) a floor plan component; and (2) an accounts receivable component. This facility has full recourse to ePlus Technology, inc. and is secured by a blanket lien against all its assets, such as chattel paper, receivables, and inventory. As of December 31, 2013, the facility had an aggregate limit of the two components of \$175.0 million with an accounts receivable sub-limit of \$30.0 million.

Availability under the facility may be limited by the asset value of equipment we purchase or accounts receivable, and may be further limited by certain covenants and terms and conditions of the facility. These covenants include but are not limited to a minimum excess availability of the facility and minimum earnings before interest, taxes, depreciation and amortization (EBITDA) of ePlus Technology, inc. We were in compliance with these covenants as of December 31, 2013. In addition, the facility restricts the ability of ePlus Technology, inc. to transfer funds to its affiliates in the form of dividends, loans, or advances with certain exceptions for dividends to ePlus inc. Interest on the facility is assessed at a rate of the One Month LIBOR plus two and one half percent if the payments are not made on the three specified dates each month. The facility also requires that financial statements of ePlus Technology, inc. be provided within 45 days of each quarter and 90 days of each fiscal year end and also requires other operational reports be provided on a regular basis. Either party may terminate the facility with 90 days advance written notice.

We are not, and do not believe that we are reasonably likely to be, in breach of the GECDF credit facility. In addition, we do not believe that the covenants of the GECDF credit facility materially limit our ability to undertake financing. In this regard, the covenants apply only to our subsidiary, ePlus Technology, inc. This credit facility is secured by the assets of only ePlus Technology, inc. and the guaranty as described below.

The facility provided by GECDF requires a guaranty of \$10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its annual audited financial statements by a certain date. We have delivered the annual audited financial statements for the year ended March 31, 2013, as required. The loss of the GECDF credit facility could have a material adverse effect on our future results as we currently rely on this facility and its components for daily working capital and liquidity for our technology segment and as an operational function of our accounts payable process.

### Floor Plan Component

The traditional business of ePlus Technology, inc. as a seller of computer technology, related peripherals and software products, is in part financed through a floor plan component in which interest expense for the first thirty to sixty days, in general, is not charged. The floor plan liabilities are recorded as accounts payable—floor plan on our unaudited condensed consolidated balance sheets, as they are normally repaid within the fifteen to sixty-day time frame and represent assigned accounts payable originally generated with the manufacturer/distributor. In some cases we are able to pay invoices early and receive a discount, but if the fifteen to sixty-day obligation is not paid timely, interest is then assessed at stated contractual rates.

The respective floor plan component credit limits and actual outstanding balances for the dates indicated were as follows (in thousands):

Edgar Filing: EPLUS INC - Form 10-Q

Maximum Credit Limit at December 31, 2013	Balance as of December 31, 2013	Maximum Credit Limit at March 31, 2013	Balance as of March 31, 2013
\$175,000	\$84,761	\$175,000	\$66,251

Accounts Receivable Component

Included within the credit facility, ePlus Technology, inc. has an accounts receivable component from GECDF, which has a revolving line of credit. On the due date of the invoices financed by the floor plan component, the invoices are paid by the accounts receivable component of the credit facility. The balance of the accounts receivable component is then reduced by payments from our available cash. The outstanding balance under the accounts receivable component is recorded as recourse notes payable on our unaudited condensed consolidated balance sheets. There was no outstanding balance at December 31, 2013 or March 31, 2013, while the maximum credit limit was \$30.0 million for both periods.

## Table of Contents

### Credit Facility — General

First Virginia Community Bank (formerly 1st Commonwealth Bank of Virginia) provides us with a \$0.5 million credit facility, which matured on October 26, 2012. This credit facility was renewed for two years effective October 27, 2012. The credit facility is available for use by us and our affiliates and is full recourse to us. Borrowings under this facility bear interest at Wall Street Journal U.S. Prime rate plus 1%. The primary purpose of the facility is to provide letters of credit for landlords, taxing authorities and bids. As of December 31, 2013, we had no outstanding balance on this credit facility.

### Performance Guarantees

In the normal course of business, we may provide certain customers with performance guarantees, which are generally backed by surety bonds. In general, we would only be liable for the amount of these guarantees in the event of default in the performance of our obligations. We are in compliance with the material performance obligations under all service contracts for which there is a performance guarantee, and we believe that any liability incurred in connection with these guarantees would not have a material adverse effect on our financial condition or results of operations.

### Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K or other contractually narrow or limited purposes. As of December 31, 2013, we were not involved in any unconsolidated special purpose entity transactions.

### Adequacy of Capital Resources

The continued implementation of our business strategy will require a significant investment in both resources and managerial focus. In addition, we may selectively acquire other companies that have attractive customer relationships and skilled sales and/or engineering forces. We may also start offices in new geographic areas, which may require a significant investment of cash. We may also acquire technology companies to expand and enhance the platform of bundled solutions to provide additional functionality and value-added services. We may continue to use our internally generated funds to finance investments in leased assets or investments in notes receivables due from our customers. As a result, we may require additional financing to fund our strategy, implementation and potential future acquisitions, which may include additional debt and equity financing.

### Inflation

For the periods presented herein, inflation has been relatively low and we believe that inflation has not had a material effect on our results of operations.

### Potential Fluctuations in Quarterly Operating Results

Our future quarterly operating results and the market price of our common stock may fluctuate. In the event our revenues or earnings for any quarter are less than the level expected by securities analysts or the market in general, such shortfall could have an immediate and significant adverse impact on the market price of our common stock. Any such adverse impact could be greater if any such shortfall occurs near the time of any material decrease in any widely followed stock index or in the market price of the stock of one or more public equipment leasing and financing companies, IT resellers, software competitors, major customers or vendors of ours.

Our quarterly results of operations are susceptible to fluctuations for a number of reasons, including, but not limited to, reduction in IT spending, any reduction of expected residual values related to the equipment under our leases, the timing and mix of specific transactions, the reduction of manufacturer incentive programs, and other factors. Quarterly operating results could also fluctuate as a result of our sale of equipment in our lease portfolio at the expiration of a lease term or prior to such expiration, to a lessee or to a third party and the transfer of financial assets. Sales of equipment and transfers of financial assets may have the effect of increasing revenues and net income during the quarter in which the sale occurs, and reducing revenues and net income otherwise expected in subsequent quarters. See Part I, Item 1A, “Risk Factors,” in our 2013 Annual Report and in subsequently filed Forms 10-Q.

We believe that comparisons of quarterly results of our operations are not necessarily meaningful and that results for one quarter should not be relied upon as an indication of future performance.

## Table of Contents

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

Although a portion of our liabilities are non-recourse, fixed-interest-rate instruments, we utilize our line of credit and other financing facilities which are subject to fluctuations in short-term interest rates. These instruments, which are denominated in U.S. dollars, were entered into for other than trading purposes and, with the exception of amounts drawn under the GECDF facility, bear interest at a fixed rate. Because the interest rate on these instruments is fixed, changes in interest rates will not directly impact our cash flows. Changes in interest rates may affect our ability to fund or transfer our financing arrangements if the rate rises above the fixed rate of the instrument. Borrowings under the GECDF facility bear interest at a market-based variable rate. As of December 31, 2013, the aggregate fair value of our non-recourse notes payable approximated their carrying value.

We have financed certain customer leases for equipment which is located in Canada and Iceland. As such, we have entered into lease contracts and non-recourse, fixed-interest-rate financing denominated in Canadian dollars and Icelandic krona. To date, our Canadian and Icelandic operations have been insignificant and we believe that potential fluctuations in currency exchange rates will not have a material effect on our financial position.

### Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of our disclosure controls and procedures, or “disclosure controls,” as defined in Securities Exchange Act of 1934 (“Exchange Act”) Rule 13a-15(e). Disclosure controls are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this quarterly report, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms. Disclosure controls 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 our management, including our CEO and CFO, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls include some, but not all, components of our internal control over financial reporting. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2013.

#### Changes in Internal Controls

Internal controls over financial reporting continue to be updated as necessary to accommodate modifications to our business process and accounting procedures. During the quarter ended September 30, 2013, we identified a material weakness related to the accounting for agreements under Codification Topic, Transfers and Servicing. During the quarter ended December 31, 2013, we remediated this material weakness by implementing additional reviews of the accounting for these arrangements.

Other than as described above, there have not been any other changes in our internal control over financial reporting during the quarter ended December 31, 2013, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### Limitations on the Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system cannot provide absolute assurance due to its inherent limitations; it is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. A control system also can be circumvented by

collusion or improper management override. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of such limitations, disclosure controls and internal control over financial reporting cannot prevent or detect all misstatements, whether unintentional errors or fraud. However, these inherent limitations are known features of the financial reporting process; therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

36

---



Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are the plaintiff in a lawsuit in the United States District Court for the Eastern District of Virginia (“the trial court”) in which a jury unanimously found that Lawson Software, Inc. (“Lawson”) infringed certain ePlus patents. The jury verdict, which was reached on January 27, 2011, also found that all of ePlus’ patent claims tried in court were not invalid. On May 23, 2011, the trial court issued a permanent injunction, ordering Lawson and its successors to: immediately stop selling and servicing products relating to its electronic procurement systems that infringe our patents; cease providing any ongoing or future maintenance, training or installation of its infringing products; and refrain from publishing any literature or information that encourages the use or sale of its infringing products. Lawson appealed the trial court’s judgment, and we appealed the trial court’s evidentiary ruling which precluded us from seeking monetary damages. On November 21, 2012, the United States Court of Appeals for the Federal Circuit (the “Appeals Court”) reversed in part, vacated in part, affirmed in part, and remanded. The Appeals Court upheld the trial court’s ruling precluding us from seeking monetary damages. The Appeals Court also upheld the finding that the patent claims were not invalid and upheld, in part, the finding of infringement. The Appeals Court remanded the case to the trial court for consideration of what changes, if any, are required to the terms of the injunction. Consistent with the Appeals Court’s decision, on June 11, 2013, the trial court issued an order modifying the injunction so that it would continue in full effect with respect to those configurations of Lawson’s electronic procurement systems that the Appeals Court affirmed are infringing.

On August 16, 2013, the trial court issued an order finding, by clear and convincing evidence, that Lawson is in contempt of the trial court’s May 23, 2011, injunction, entering judgment in our favor in the amount of \$18,167,950, and ordering that Lawson pay to the court a daily coercive fine in the amount of \$62,362 until Lawson establishes that it is in compliance with the injunction. Lawson appealed both the order modifying the injunction, and the order finding it in contempt. Lawson posted a bond, and collection of the judgment and the imposition of the coercive fine have been stayed pending the appeal.

In light of the Appeals Court’s January 29, 2014, decision on the reexamination proceeding described below, we anticipate that the Appeals Court will vacate the injunction on a going-forward basis. However, we continue to believe that we are entitled to enforce the contempt judgment. Briefing on the appeals was completed in January 2014, however, we do not know if or when the Appeals Court will hold oral arguments, or when it will issue a ruling. Court calendars and rulings are inherently unpredictable, and we cannot predict when any motion or appeal will be resolved, or the outcome thereof.

Patent litigation is extremely complex and issues regarding a patent’s validity can arise even subsequent to a patent’s issuance. On November 8, 2013, the Appeals Court affirmed the United States Patent and Trademark Office’s Patent Trial and Appeal Board’s adverse decision in a reexamination proceeding concerning the validity of the patent at issue in the Lawson litigation. On January 29, 2014, the Appeals Court denied our Motion for Rehearing. This unfavorable decision in the reexamination proceeding may adversely affect the Lawson litigation, including probable termination of the injunction described above.

As noted above, court calendars and rulings are inherently unpredictable, and we cannot predict when any motion or appeal will be resolved, or the outcome thereof.

Other Matters

We may become party to various legal proceedings arising in the ordinary course of business including preference payment claims asserted in customer bankruptcy proceedings, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, claims of alleged non-compliance with contract provisions, employment related claims, claims by competitors, vendors or customers, and claims related to alleged violations of

laws and regulations. Although we do not expect that the outcome in any of these matters, individually or collectively, will have a material adverse effect on our financial condition or results of operations, litigation is inherently unpredictable. Therefore, judgments could be rendered or settlements entered that could adversely affect our results of operations or cash flows in a particular period. We provide for costs related to contingencies when a loss is probable and the amount is reasonably determinable.

Table of Contents

## Item 1A. Risk Factors

There have not been any material changes in the risk factors previously disclosed in Part I, Item 1A of our 2013 Annual Report, except as updated in our subsequently files Forms 10-Q.

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

The following table provides information regarding our purchases of ePlus inc. common stock during the nine months ended December 31, 2013.

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs	
April 1, 2013 through April 30, 2013	-	-	-	500,000	(2)
May 1, 2013 through May 31, 2013	-	-	-	500,000	(3)
June 1, 2013 through June 30, 2013	28,222	\$ 60.06	-	500,000	(4)
July 1, 2013 through July 31, 2013	-	-	-	500,000	(5)
August 1, 2013 through August 31, 2013	30,010	\$ 55.33	16,159	483,841	(6)
September 1, 2013 through September 15, 2013	46,827	\$ 54.37	46,827	437,014	(7)
September 16, 2013 through November 13, 2013	-	-	-	-	(8)
November 14, 2013 through November 30, 2013	20,023	\$ 53.38	20,023	729,977	(9)
December 1, 2013 through December 31, 2013	62,499	\$ 53.40	62,499	667,478	(10)

The timing and expiration date of the current stock repurchase authorizations are included in Note 9, "Stockholders' Equity" to our unaudited condensed consolidated financial statements included elsewhere in this report.

(1) All shares acquired were in open-market purchases, except for 42,073 shares, which were repurchased to satisfy tax withholding obligations that arose due to the vesting of shares of restricted stock.

The share purchase authorization in place for the month ended April 30, 2013 had purchase limitations on the (2) number of shares of up to 500,000 shares. As of April 30, 2013, the remaining authorized shares to be purchased were 500,000.

The share purchase authorization in place for the month ended May 31, 2013 had purchase limitations on the (3) number of shares of up to 500,000 shares. As of May 31, 2013, the remaining authorized shares to be purchased were 500,000.

The share purchase authorization in place for the month ended June 30, 2013 had purchase limitations on the (4) number of shares of up to 500,000 shares. As of June 30, 2013, the remaining authorized shares to be purchased were 500,000.

The share purchase authorization in place for the month ended July 31, 2013 had purchase limitations on the (5) number of shares of up to 500,000 shares. As of July 31, 2013, the remaining authorized shares to be purchased were 500,000.

The share purchase authorization in place for the month ended August 31, 2013 had purchase limitations on the (6) number of shares of up to 500,000 shares. As of August 31, 2013, the remaining authorized shares to be purchased were 483,841.

The share purchase authorization in place for the period from September 1, 2013 to September 15, 2013 had (7) purchase limitations on the number of shares of up to 500,000 shares. As of September 15, 2013, stock repurchase authorization expired and no more shares were authorized to be purchased.

(8) There was no stock repurchase authorization for the period September 16, 2013 through November 13, 2013 as the stock repurchase authorization expired as of September 15, 2013.

On November 14, 2013, our board of directors has authorized the Company to repurchase up to 750,000 shares of (9) ePlus' outstanding common stock over a 12-month period commencing on November 14, 2013. As of November 31, 2013, the remaining authorized shares to be purchased were 729,977.

The share purchase authorization in place for the month ended December 31, 2013 had purchase limitations on (10) the number of shares of up to 750,000 shares. As of December 31, 2013, the remaining authorized shares to be purchased were 667,478.

Table of Contents

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

31.1 Certification of the Chief Executive Officer of ePlus inc. pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a).

31.2 Certification of the Chief Financial Officer of ePlus inc. pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a).

32.0 Certification of the Chief Executive Officer and Chief Financial Officer of ePlus inc. pursuant to 18 U.S.C. § 1350.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

39

---

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ePlus inc.

Date: February 5, 2014 /s/ PHILLIP G. NORTON

By: Phillip G. Norton, Chairman of the  
Board,  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: February 5, 2014 /s/ ELAINE D. MARION

By: Elaine D. Marion  
Chief Financial Officer  
(Principal Financial Officer)