EPLUS INC
Form 10-Q/A
June 30, 2008

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

FORM 10-Q/A
(Amendment No. 1)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2007

OR

o 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: 0-28926

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 x No o

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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of common stock outstanding as of April 30, 2008 was 8,231,741.

Explanatory Note

ePlus inc. is filing this amendment to its Quarterly Report on Form 10-Q ("Form 10-Q/A") to restate its Condensed Consolidated Statement of Cash Flows for the nine months ended December 31, 2007 as described in Note 2, “Restatement of Condensed Consolidated Statement of Cash Flows”. As previously disclosed in our Quarterly Report on Form 10-Q for the period ended December 31, 2007, as filed with the United States Securities and Exchange Commission (the "SEC") on May 5, 2008 (the "Original Form 10-Q"), we engaged in certain transactions involving the sale of direct financing and operating leases. Several groups of operating leases sold were funded with non-recourse debt by the same lenders to whom the Company sold the leases. The purchase price for the sales consisted of cash proceeds of $893 thousand and a direct reduction of the related non-recourse debt in the amount of $11,400 thousand. In the Condensed Consolidated Statement of Cash Flows for the nine month period ended December 31, 2007, the direct reduction of the non-recourse debt was inappropriately presented as cash from operating activities and cash used in financing activities as if we had received cash proceeds for the full amount. The Company also retained a residual value in a portion of the sales of leased equipment of $653 thousand which was inappropriately classified. The Company has concluded to restate its Condensed Consolidated Statement of Cash Flows.

This restatement does not impact our previously reported net increase in cash and cash equivalents in our Condensed Consolidated Statement of Cash Flows for the nine months ended December 31, 2007. Additionally, this restatement does not impact our Condensed Consolidated Balance Sheets or Condensed Consolidated Statements of Operations for any period presented.

For the convenience of the reader, this Form 10-Q/A sets forth our Original Form 10-Q in its entirety, as amended by, and to reflect, the restatement. No material changes have been made in this Form 10-Q/A to update other disclosures presented in the Original Form 10-Q, except as required to reflect the effects of the restatement. This Form 10-Q/A does not reflect events occurring after the filing of the Original Form 10-Q or modify or update those disclosures, including the exhibits to the Original Form 10-Q affected by subsequent events. The following sections of this Form 10-Q/A have been amended to reflect the restatement:

Part I—Item 1—Financial Statements (Condensed Consolidated Statements of Cash Flows, As Restated, and Note 2, “Restatement of Condensed Consolidated Statement of Cash Flows”,

Part I—Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations (Liquidity and Capital Resources),

Part I—Item 4—Controls and Procedures, and

Part II—Item 1A—Risk Factors.

This Form 10-Q/A has been signed as of a current date and all certifications of the Company's Chief Executive Officer and Chief Financial Officer are given as of a current date. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the SEC subsequent to the filing of the Original Form 10-Q for the nine months ended December 31, 2007, including any amendments to those filings.

TABLE OF CONTENTS

ePlus inc. AND SUBSIDIARIES

Table of Contents

Cautionary Language About Forward-Looking Statements

This Quarterly Report on Form 10-Q/A 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, 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," "will," "should," "intend," "estimate," "believe," "expect," "anticipate," "project" an expressions. Readers are cautioned not to place undue reliance on any forward-looking statements made by us or on our behalf. Any such statement speaks only as of the date the statement was made. 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.

Although we have been offering IT financing since 1990 and direct marketing of IT products since 1997, our comprehensive set of solutions—the bundling of our direct IT sales, professional services and financing with our proprietary software—has been available since 2002. Consequently, we may encounter some of the challenges, risks, difficulties and uncertainties frequently faced by companies providing new and/or bundled solutions in an evolving market. Some of these challenges relate to our ability to:

- manage a diverse product set of solutions in highly-competitive markets;
- increase the total number of customers utilizing bundled solutions by up-selling within our customer base and gain new customers;
- adapt to meet changes in markets and competitive developments;
- maintain and increase advanced professional services by retaining highly-skilled personnel and vendor certifications;
- integrate with external IT systems including those of our customers and vendors; and
- continue to update our software and technology to enhance the features and functionality of our products.

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 "Risk Factors" and "Results of Operations" sections contained elsewhere in this document, as well as our Annual Report on Form 10-K for the fiscal year ended March 31, 2007, any subsequent Reports on Form 10-Q and Form 8-K and other filings with the SEC.

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

ePlus inc. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	As of December 31, 2007	As of March 31, 2007
ASSETS	(in thousands)	
Cash and cash equivalents	$ 65,590	$ 39,680
Accounts receivable—net	108,457	110,662
Notes receivable	186	237
Inventories	8,717	6,851
Investment in leases and leased equipment—net	161,074	217,170
Property and equipment—net	5,007	5,529
Other assets	15,011	11,876
Goodwill	26,125	26,125
TOTAL ASSETS	$ 390,167	$ 418,130
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable—equipment	$ 6,482	$ 6,547
Accounts payable—trade	26,980	21,779
Accounts payable—floor plan	51,618	55,470
Salaries and commissions payable	4,491	4,331
Accrued expenses and other liabilities	26,674	25,960
Income taxes payable	3,531	-
Recourse notes payable	-	5,000
Non-recourse notes payable	104,741	148,136
Deferred tax liability	4,457	4,708
Total Liabilities	228,974	271,931
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; 11,210,731 issued and 8,231,741 outstanding at December 31, 2007 and 11,210,731 issued and 8,231,741 outstanding at March 31, 2007	112	112
Additional paid-in capital	77,471	75,909
Treasury stock, at cost, 2,978,990 and 2,978,990 shares, respectively	(32,884)	(32,884)
Retained earnings	115,878	102,754
	616	308

Accumulated other comprehensive income—foreign currency translation adjustment				
Total Stockholders' Equity		161,193		146,199
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	390,167	$	418,130

See Notes to Unaudited Condensed Consolidated Financial Statements.

5

Table of Contents

ePlus inc. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	Nine Months Ended December 31, 2007	Nine Months Ended December 31, 2006
	(amounts in thousands, except per share data)			
Sales of product and services	$ 168,394	$ 183,277	$ 564,628	$ 538,923
Sales of leased equipment	13,740	2,557	40,544	4,376
	182,134	185,834	605,172	543,299
Lease revenues	12,194	16,000	43,810	40,853
Fee and other income	4,111	3,544	13,124	9,484
Patent settlement income	-	17,500	-	17,500
	16,305	37,044	56,934	67,837
TOTAL REVENUES	198,439	222,878	662,106	611,136
COSTS AND EXPENSES				
Cost of sales, product and services	148,802	161,254	500,202	477,879
Cost of leased equipment	13,308	2,509	38,919	4,284
	162,110	163,763	539,121	482,163
Direct lease costs	4,460	5,574	16,353	16,170
Professional and other fees	2,479	7,245	9,650	13,295
Salaries and benefits	17,069	17,947	53,971	52,912
General and administrative expenses	3,760	4,050	12,135	12,921
Interest and financing costs	1,818	2,839	6,590	7,492
	29,586	37,655	98,699	102,790
TOTAL COSTS AND EXPENSES (1) (2)	191,696	201,418	637,820	584,953
EARNINGS BEFORE PROVISION FOR INCOME TAXES	6,743	21,460	24,286	26,183
PROVISION FOR INCOME TAXES	2,992	9,056	10,671	10,737
NET EARNINGS	$ 3,751	$ 12,404	$ 13,615	$ 15,446
NET EARNINGS PER COMMON SHARE—BASIC	$ 0.45	$ 1.51	$ 1.65	$ 1.88
NET EARNINGS PER COMMON SHARE—DILUTED	$ 0.45	$ 1.47	$ 1.63	$ 1.80
WEIGHTED AVERAGE SHARES OUTSTANDING—BASIC	8,231,741	8,231,741	8,231,741	8,222,700
	8,422,256	8,456,627	8,375,412	8,577,999

WEIGHTED AVERAGE SHARES OUTSTANDING—DILUTED

(1) Includes amounts to related parties of $274 thousand and $238 thousand for the three months ended December 31, 2007 and December 31, 2006, respectively.
(2) Includes amounts to related parties of $798 thousand and $710 thousand for the nine months ended December 31, 2007 and December 31, 2006, respectively.

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ePlus inc. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended December 31, 2007 As Restated (1)	2006
	(in thousands)	
Cash Flows From Operating Activities:		
Net earnings	$ 13,615	$ 15,446
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	17,161	16,153
Reserves for credit losses and sales returns	(246)	788
Provision for inventory losses	65	150
Impact of stock-based compensation	1,562	719
Excess tax benefit from exercise of stock options	-	(95)
Tax benefit of stock options exercised	-	308
Deferred taxes	(251)	-
Payments from lessees directly to lenders—operating leases	(10,754)	(8,244)
Loss on disposal of property and equipment	4	90
Gain on sale of operating leases	(403)	-
Gain on disposal of operating lease equipment	(1,078)	(600)
Excess increase in cash value of officers life insurance	(30)	(19)
Changes in:		
Accounts receivable—net	1,071	(48,784)
Notes receivable	51	65
Inventories	(1,090)	(9,219)
Investment in direct financing and sale-type leases — net	(2,926)	(34,335)
Other assets	(2,241)	(279)
Accounts payable—equipment	797	(1,614)
Accounts payable—trade	5,233	3,709
Salaries and commissions payable, accrued expenses and other liabilities	3,912	8,763
Net cash provided by (used in) operating activities	24,452	(56,998)
Cash Flows From Investing Activities:		
Proceeds from sale of operating leases	893	-
Proceeds from sale of operating lease equipment	3,400	1,270
Purchases of operating lease equipment	(7,039)	(19,711)
Proceeds from sale of property and equipment	-	2
Purchases of property and equipment	(1,315)	(2,145)
Premiums paid on officers' life insurance	(238)	(219)
Net cash used in investing activities	(4,299)	(20,803)

(1) See Note 2, "Restatement of Condensed Consolidated Statement of Cash Flows"

7

Table of Contents

ePlus inc. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - continued
(UNAUDITED)

	Nine Months Ended December 31,	
	2007 As Restated (1)	2006
	(in thousands)	
Cash Flows From Financing Activities:		
Borrowings:		
Non-recourse	35,792	87,029
Repayments:		
Non-recourse	(21,491)	(19,213)
Purchase of treasury stock	-	(2,900)
Proceeds from issuance of capital stock, net of expenses	-	1,911
Excess tax benefit from exercise of stock options	-	95
Net borrowings (repayment) on floor plan facility	(3,852)	7,126
Net borrowings (repayment) on recourse lines of credit	(5,000)	4,000
Net cash provided by financing activities	5,449	78,048
Effect of Exchange Rate Changes on Cash	308	2
Net Increase in Cash and Cash Equivalents	25,910	249
Cash and Cash Equivalents, Beginning of Period	39,680	20,697
Cash and Cash Equivalents, End of Period	$ 65,590	$ 20,946
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 1,020	$ 1,981
Cash paid for income taxes	$ 6,692	$ 457
Schedule of Non-cash Investing and Financing Activities:		
Purchase of property and equipment included in accounts payable	$ 151	$ 67
Principal payments from lessees directly to lenders	$ 46,296	$ 36,589
Repayment of non-recourse debt to lenders from the sale of operating leases	$ 11,400	$ -

(1) See Note 2, "Restatement of Condensed Consolidated Statement of Cash Flows"

See Notes To Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ePlus inc. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As of and for the three and nine months ended December 31, 2007 and 2006

1. BASIS OF PRESENTATION

The Condensed Consolidated Financial Statements of ePlus inc. and subsidiaries and Notes thereto included herein are unaudited and have been prepared by us, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and reflect all adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim periods. All adjustments made were of a normal recurring nature.

Certain information and note disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") have been condensed or omitted pursuant to SEC rules and regulations.

These interim financial statements should be read in conjunction with our Consolidated Financial Statements and Notes thereto contained in our Annual Report on Form 10-K for the year ended March 31, 2007. Operating results for the interim periods are not necessarily indicative of results for an entire year.

PRINCIPLES OF CONSOLIDATION — The Condensed Consolidated Financial Statements include the accounts of ePlus inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

REVENUE RECOGNITION — We adhere to guidelines and principles of sales recognition described in Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition," issued by the staff of the SEC. Under SAB No. 104, sales 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 and/or services have been rendered, the sales price is fixed or determinable and collectibility is reasonably assured. Using these tests, the vast majority of our sales represent product sales recognized upon delivery.

From time to time, when selling product and services, we may enter into contracts that contain multiple elements. Sales of services currently represent less than 10% of our sales. For services that are performed in conjunction with product sales and are completed in our facilities prior to shipment of the product, sales for both the product and services are recognized upon shipment. Sales of services that are performed at customer locations are recorded as sales of product and services when the services are performed. If the service is performed at a customer location in conjunction with a product sale or other service sale, we recognize the sale in accordance with SAB No. 104 and Emerging Issues Task Force ("EITF") 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables." Accordingly, in an arrangement with multiple deliverables, we recognize sales for delivered items only when all of the following criteria are satisfied:

- the delivered item(s) has value to the client on a stand-alone basis;
- there is objective and reliable evidence of the fair value of the undelivered item(s); and
- if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in our control.

We sell certain third-party service contracts and software assurance or subscription products for which we evaluate whether the subsequent sales of such services should be recorded as gross sales or net sales in accordance with the sales recognition criteria outlined in SAB No. 104, EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent" and Financial Accounting Standards Board ("FASB") Technical Bulletin 90-1, "Accounting for Separately

Priced Extended Warranty and Product Contracts." We must determine whether we act as a principal in the transaction and assume the risks and rewards of ownership or if we are simply acting as an agent or broker. Under gross sales recognition, the entire selling price is recorded in sales of product and services and our costs to the third-party service provider or vendor is recorded in cost of sales, product and services on the accompanying Condensed Consolidated Statements of Operations. Under net sales recognition, the cost to the third-party service provider or vendor is recorded as a reduction to sales resulting in net sales equal to the gross profit on the transaction and there is no cost of sales.

In accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs," we record freight billed to our customers as sales of product and services and the related freight costs as a cost of sales, product and services.

We receive payments and credits from vendors, including consideration pursuant to volume sales incentive programs, volume purchase incentive programs and shared marketing expense programs. Vendor consideration received pursuant to volume sales incentive programs is recognized as a reduction to costs of sales, product and services in accordance with EITF Issue No. 02-16, "Accounting for Consideration Received from a Vendor by a Customer (Including a Reseller of the Vendor's Products)." 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, 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.

We are the lessor in a number of transactions and these transactions are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 13, "Accounting for Leases." Each lease is classified as either a direct financing lease, sales-type lease, or operating lease, as appropriate. Under the direct financing and sales-type lease methods, 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 difference between the gross investment and the cost of the leased equipment for direct finance leases is recorded as unearned income at the inception of the lease. The unearned income is amortized over the life of the lease using the interest method. Under sales-type leases, the difference between the fair value and cost of the leased property plus initial direct costs (net margins) is recorded as revenue 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 lease revenue. SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," establishes criteria for determining whether a transfer of financial assets in exchange for cash or other consideration should be accounted for as a sale or as a pledge of collateral in a secured borrowing. Certain assignments of direct finance leases we make on a non-recourse basis meet the criteria for surrender of control set forth by SFAS No. 140 and have therefore been treated as sales for financial statement purposes. We assign all rights, title, and interests in a number of our leases to third-party financial institutions without recourse. These assignments are accounted for as sales since we have completed our obligations as of the assignment date, and we retain no ownership interest in the equipment under lease.

Sales of leased equipment represent revenue from the sales of equipment subject to a lease in which we are the lessor. If the rental stream on such lease has non-recourse debt associated with it, sales revenue is recorded at the amount of consideration received, net of the amount of debt assumed by the purchaser. If there is no non-recourse debt associated with the rental stream, sales revenue is recorded at the amount of gross consideration received, and costs of sales is recorded at the book value of the lease. Sales of leased equipment represents revenue generated through the sale of equipment sold primarily through our financing business unit.

Lease revenues consist of rentals due under operating leases, amortization of unearned income on direct financing and sales-type leases and sales of leased assets to lessees. Equipment under operating leases is recorded at cost and depreciated on a straight-line basis over the lease term to estimated residual value.

Revenue from hosting arrangements is recognized in accordance with EITF 00-3, "Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware." Our hosting arrangements do not contain a contractual right to take possession of the software. Therefore, our hosting arrangements are not in the scope of Statement of Position 97-2 ("SOP 97-2"), "Software Revenue Recognition" and require that the portion of the fee allocated to the hosting elements be recognized as the service is provided. Currently, the majority of our software revenue is generated through hosting agreements and is included in fee and other income on our Condensed Consolidated Statements of Operations.

10

Table of Contents

Revenue from sales of our software is recognized in accordance with SOP 97-2, as amended by SOP 98-4, “Deferral of the Effective Date of a Provision of SOP 97-2,” and SOP 98-9, “Modification of SOP 97-2 With Respect to Certain Transactions.” We recognize revenue when all the following criteria exist: (1) there is persuasive evidence that an arrangement exists; (2) delivery has occurred; (3) no significant obligations by us related to services essential to the functionality of the software remain with regard to implementation; (4) the sales price is determinable; and (5) it is probable that collection will occur. Revenue from sales of our software is included in fee and other income on our Condensed Consolidated Statements of Operations.

At the time of each sale transaction, we make an assessment of the collectibility of the amount due from the customer. Revenue is only recognized at that time if management deems that collection is probable. In making this assessment, we consider customer creditworthiness and assess whether fees are fixed or determinable and free of contingencies or significant uncertainties. If the fee is not fixed or determinable, revenue is recognized only as payments become due from the customer, provided that all other revenue recognition criteria are met. In assessing whether the fee is fixed or determinable, we consider the payment terms of the transaction and our collection experience in similar transactions without making concessions, among other factors. Our software license agreements generally do not include customer acceptance provisions. However, if an arrangement includes an acceptance provision, we record revenue only upon the earlier of (1) receipt of written acceptance from the customer or (2) expiration of the acceptance period.

Our software agreements often include implementation and consulting services that are sold separately under consulting engagement contracts or as part of the software license arrangement. When we determine that such services are not essential to the functionality of the licensed software and qualify as “service transactions” under SOP 97-2, we record revenue separately for the license and service elements of these agreements. Generally, we consider that a service is not essential to the functionality of the software based on various factors, including if the services may be provided by independent third parties experienced in providing such consulting and implementation in coordination with dedicated customer personnel. If an arrangement does not qualify for separate accounting of the license and service elements, then license revenue is recognized together with the consulting services using either the percentage-of-completion or completed-contract method of contract accounting. Contract accounting is also applied to any software agreements that include customer-specific acceptance criteria or where the license payment is tied to the performance of consulting services. Under the percentage-of-completion method, we may estimate the stage of completion of contracts with fixed or “not to exceed” fees based on hours or costs incurred to date as compared with estimated total project hours or costs at completion. If we do not have a sufficient basis to measure progress towards completion, revenue is recognized upon completion of the contract. When total cost estimates exceed revenues, we accrue for the estimated losses immediately. The use of the percentage-of-completion method of accounting requires significant judgment relative to estimating total contract costs, including assumptions relative to the length of time to complete the project, the nature and complexity of the work to be performed, and anticipated changes in salaries and other costs. When adjustments in estimated contract costs are determined, such revisions may have the effect of adjusting, in the current period, the earnings applicable to performance in prior periods.

We generally use the residual method to recognize revenues from agreements that include one or more elements to be delivered at a future date when evidence of the fair value of all undelivered elements exists. Under the residual method, the fair value of the undelivered elements (e.g., maintenance, consulting and training services) based on vendor-specific objective evidence (“VSOE”) is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements (i.e., software license). If evidence of the fair value of one or more of the undelivered services does not exist, all revenues are deferred and recognized when delivery of all of those services has occurred or when fair values can be established. We determine VSOE of the fair value of services revenue based upon our recent pricing for those services when sold separately. VSOE of the fair value of maintenance services may also be determined based on a substantive maintenance renewal clause, if any, within a customer contract. Our current pricing practices are influenced primarily by product type, purchase volume, maintenance term and customer location. We review services revenue sold separately and maintenance renewal rates on a periodic basis and update our VSOE of fair value for such services to ensure that it reflects our recent pricing experience, when appropriate.

Table of Contents

Maintenance services generally include rights to unspecified upgrades (when and if available), telephone and Internet-based support, updates and bug fixes. Maintenance revenue is recognized ratably over the term of the maintenance contract (usually one year) on a straight-line basis and is included in fee and other income on our Condensed Consolidated Statements of Operations.

When consulting qualifies for separate accounting, consulting revenues under time and materials billing arrangements are recognized as the services are performed. Consulting revenues under fixed-price contracts are generally recognized using the percentage-of-completion method. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is sufficiently resolved. Consulting revenues are classified as fee and other income on our Condensed Consolidated Statements of Operations.

Training services include on-site training, classroom training and computer-based training and assessment. Training revenue is recognized as the related training services are provided and is included in fee and other income on our Condensed Consolidated Statements of Operations.

Amounts charged for our Procure+ service are recognized as services are rendered. Amounts charged for the Manage+ service are recognized on a straight-line basis over the contractual period for which the services are provided. In addition, other sources of revenue are derived from: (1) income from events that occur after the initial sale of a financial asset; (2) remarketing fees; (3) brokerage fees earned for the placement of financing transactions; (4) agent fees received from various manufacturers in the IT reseller business unit; (5) settlement fees related to disputes or litigation; and (6) interest and other miscellaneous income. These revenues are included in fee and other income on our Condensed Consolidated Statements of Operations.

RESIDUALS — Residual values, representing the estimated value of equipment at the termination of a lease, are recorded in our Condensed Consolidated Financial Statements at the inception of each sales-type or direct financing lease as amounts estimated by management based upon its experience and judgment. Unguaranteed residual values for sales-type and direct financing leases are recorded at their net present value and the unearned income is amortized over the life of the lease using the interest method. The residual values for operating leases are included in the leased equipment's net book value.

We evaluate residual values on an ongoing basis and record any downward adjustment, if required. No upward revision of residual values is made subsequent to lease inception.

RESERVES FOR CREDIT LOSSES — The reserves for credit losses (the "reserve") is maintained at a level believed by management to be adequate to absorb potential losses inherent in our lease and accounts receivable portfolio. Management's determination of the adequacy of the reserve is based on an evaluation of historical credit loss experience, current economic conditions, volume, growth, the composition of the lease portfolio, and other relevant factors. The reserve is increased by provisions for potential credit losses charged against income. Accounts are either written off or written down when the loss is both probable and determinable, after giving consideration to the customer's financial condition, the value of the underlying collateral and funding status (i.e., discounted on a non-recourse or recourse basis).

CASH AND CASH EQUIVALENTS — Cash and cash equivalents include funds in operating accounts as well as money market funds.

INVENTORIES — Inventories are stated at the lower of cost (weighted average basis) or market.

PROPERTY AND EQUIPMENT — Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, which range from three to ten years.

Table of Contents

CAPITALIZATION OF COSTS OF SOFTWARE FOR INTERNAL USE — We have capitalized certain costs for the development of internal use software under the guidelines of SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Software capitalized for internal use was $761 thousand and $178 thousand during the nine months ended December 31, 2007 and December 31, 2006, respectively, which is included in the accompanying Condensed Consolidated Balance Sheets as a component of property and equipment—net. We had capitalized costs, net of amortization, of approximately $1.2 million at December 31, 2007 and $650 thousand at March 31, 2007.

CAPITALIZATION OF COSTS OF SOFTWARE TO BE MADE AVAILABLE TO CUSTOMERS — In accordance with SFAS No. 86, "Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," software development costs are expensed as incurred until technological feasibility has been established. At such time such costs are capitalized until the product is made available for release to customers. For the nine months ended December 31, 2007, there was no such costs capitalized, while for the nine months ended December 31, 2006, $59 thousand were capitalized for software to be made available to customers. We had $619 thousand and $760 thousand of capitalized costs, net of amortization, at December 31, 2007 and March 31, 2007, respectively.

INTANGIBLE ASSETS — In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," we perform an impairment test for goodwill at September 30th of each year and follow the two-step process prescribed in SFAS No. 142 to test our goodwill for impairment under the transitional goodwill impairment test. The first step is to screen for potential impairment, while the second step measures the amount of the impairment, if any.

IMPAIRMENT OF LONG-LIVED ASSETS — We review long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and the carrying value of the asset.

FAIR VALUE OF FINANCIAL INSTRUMENTS — The carrying value of our financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other liabilities, approximates fair value due to their short maturities. The carrying amount of our non-recourse and recourse notes payable approximates its fair value. We determined the fair value of notes payable by applying the average portfolio debt rate and applying such rate to future cash flows of the respective financial instruments. The estimated fair value of our recourse and non-recourse notes payable at December 31, 2007 and March 31, 2007 was $104.2 million and $153.4 million, respectively, compared to a carrying amount of $104.7 million and $153.1 million, respectively.

TREASURY STOCK — We account for treasury stock under the cost method and include treasury stock as a component of stockholders' equity.

INCOME TAXES — Deferred income taxes are accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred income tax assets and liabilities are determined based on the temporary differences between the financial statement reporting and tax bases of assets and liabilities, using tax rates currently in effect. Future tax benefits, such as net operating loss carryforwards, are recognized to the extent that realization of these benefits is considered to be more likely than not. In addition, on April 1, 2007, we adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109" ("FIN 48"). Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. In accordance with our accounting policy, we recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. This policy did not change as a result of the adoption of FIN 48. We recorded a cumulative effect adjustment to reduce our fiscal 2008 balance of beginning retained earnings by $491 thousand in our Condensed Consolidated Financial Statements.

ESTIMATES — The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COMPREHENSIVE INCOME — Comprehensive income consists of net income and foreign currency translation adjustments. For the nine months ended December 31, 2007, other comprehensive income was $308 thousand and net income was $13.6 million. This resulted in total comprehensive income of $13.9 million for the nine months ended December 31, 2007. For the nine months ended December 31, 2006, other comprehensive income was approximately $2.0 thousand and net income was $15.4 million. This resulted in total comprehensive income of $15.4 million for the nine months ended December 31, 2006.

EARNINGS PER SHARE — Earnings per share ("EPS") have been calculated in accordance with SFAS No. 128, "Earnings per Share." In accordance with SFAS No. 128, basic EPS amounts were calculated based on weighted average shares outstanding of 8,231,741 for the three and nine months ended December 31, 2007 and 8,231,741 and 8,222,700, for the three and nine months ended December 31, 2006, respectively. Diluted EPS amounts were calculated based on weighted average shares outstanding and potentially dilutive common stock equivalents of 8,422,256 and 8,375,412 for the three and nine months ended December 31, 2007, respectively, and 8,456,627 and 8,577,999 for the three and nine months ended December 31, 2006, respectively. Additional shares included in the diluted EPS calculations are attributable to incremental shares issuable upon the assumed exercise of stock options and other common stock equivalents.

STOCK-BASED COMPENSATION — On April 1, 2006, we adopted SFAS No. 123 (revised 2004), "Share-Based Payment," or SFAS No. 123R. SFAS No. 123R replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and subsequently issued stock option related guidance. We elected the modified-prospective transition method. Under the modified-prospective method, we must recognize compensation expense for all awards subsequent to adopting the standard and for the unvested portion of previously granted awards outstanding upon adoption. We have recognized compensation expense equal to the fair values for the unvested portion of share-based awards at April 1, 2006 over the remaining period of service, as well as compensation expense for those share-based awards granted or modified on or after April 1, 2006 over the vesting period based on the grant-date fair values using the straight-line method. For those awards granted prior to the date of adoption, compensation expense is recognized on an accelerated basis based on the grant-date fair value amount as calculated for pro forma purposes under SFAS No. 123.

RECENT ACCOUNTING PRONOUNCEMENTS — In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP and expands disclosures about fair value measurements. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued Staff Position No. FAS 157-2, "Effective Dates of FASB Statement No. 157," which defers the effective date of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. We are in the process of evaluating the impact, if any, SFAS No. 157 will have on our financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value ption for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits an entity, at specified election dates, to choose to measure certain financial instruments and other items at fair value. The objective of SFAS No. 159 is to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for accounting periods beginning after November 15, 2007. We are in the process of evaluating the impact, if any, SFAS No. 159 will have on our financial condition and results of operations.

Table of Contents

2. RESTATEMENT OF CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

During the nine month period ended December 31, 2007, we sold operating leases to non-lessee third parties. A portion of the leases sold included operating leases which were funded with non-recourse debt with the same lender to whom we sold the leases. The purchase price consisted of proceeds of $893 thousand and a direct reduction of the related non-recourse debt of $11,400 thousand. The previously-issued Condensed Consolidated Statement of Cash Flows for the nine months ended December 31, 2007 inappropriately presented the net book value of all such operating leases sold in cash flows from operating activities in loss (gain) on disposal of operating lease equipment and the elimination of debt was inappropriately presented in cash flows from financing activities as a repayment of non-recourse debt. However, the only cash transaction was the proceeds received of $893 thousand, therefore, the direct reduction of the non-recourse debt by the lender should be reflected in the schedule of non-cash investing and financing activities. The Company also retained a residual value in a portion of the leased equipment that was sold of $653 thousand which was inappropriately included in loss (gain) on sale of operating leases versus in changes in other assets. Consequently, we have restated the accompanying Condensed Consolidated Statement of Cash Flows for the nine months ended December 31, 2007. This restatement does not impact the Company's previously reported net increase in cash and cash equivalents.

The Condensed Consolidated Statement of Cash Flows has been restated as follows:

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine Months Ended December 31,	
	2007 As Previously Reported	2007 As Restated
	(in thousands)	
Cash Flows From Operating Activities:		
Gain on sale of operating leases	$ -	$ (403)
Loss (gain) on disposal of operating lease equipment	11,463	(1,078)
Changes in other assets	(2,892)	(2,241)
Net cash provided by operating activities	36,745	24,452
Cash Flows From Investing Activities:		
Proceeds from sale of operating leases	-	893
Net cash used in investing activities	(5,192)	(4,299)
Cash Flows From Financing Activities:		
Repayment of non-recourse debt	(32,891)	(21,491)
Net cash provided by (used in) financing activities	(5,951)	5,449
Schedule of Non-cash Investing and Financing Activities:		
Repayment of non-recourse debt to lender from sales of operating leases	-	11,400

3. INVESTMENT IN LEASES AND LEASED EQUIPMENT—NET

Investment in leases and leased equipment—net consists of the following:

	As of			
	December 31, 2007		March 31, 2007	
	(in thousands)			
Investment in direct financing and sales-type leases—net	$	125,519	$	158,471
Investment in operating lease equipment—net		35,555		58,699
	$	161,074	$	217,170

15

Table of Contents

INVESTMENT IN DIRECT FINANCING AND SALES-TYPE LEASES—NET

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

	As of	
	December 31, 2007	March 31, 2007
	(in thousands)	
Minimum lease payments	$ 118,792	$ 154,349
Estimated unguaranteed residual value (1)	18,987	22,375
Initial direct costs, net of amortization (2)	1,231	1,659
Less: Unearned lease income	(12,231)	(18,271)
Reserve for credit losses	(1,260)	(1,641)
Investment in direct financing and sales-type leases—net	$ 125,519	$ 158,471

(1) Includes estimated unguaranteed residual values of $2,010 thousand and $1,191 thousand as of December 31, 2007 and March 31, 2007, respectively, for direct financing SFAS No. 140 leases.
(2) Initial direct costs are shown net of amortization of $1,496 thousand and $1,409 thousand as of December 31, 2007 and March 31, 2007, respectively.

Our net investment in direct financing and sales-type leases is collateral for non-recourse and recourse equipment notes, if any.

INVESTMENT IN OPERATING LEASE EQUIPMENT—NET

Investment in operating lease equipment—net primarily represents leases that do not qualify as direct financing leases or are leases that are short-term renewals on a month-to-month basis. The components of the net investment in operating lease equipment are as follows:

	As of	
	December 31, 2007	March 31, 2007
	(in thousands)	
Cost of equipment under operating leases	$ 67,219	$ 93,804
Less: Accumulated depreciation and amortization	(31,664)	(35,105)
Investment in operating lease equipment—net	$ 35,555	$ 58,699

For the nine months ended December 31, 2007, we sold portions of our lease portfolio. The sales were reflected in our financial statements as sales of leased equipment totaling approximately $40.5 million and cost of sales, leased equipment of $38.9 million. There was a reduction of investment in leases and leased equipment – net of $38.9 million and non-recourse notes payable of $12.4 million.

4. RESERVES FOR CREDIT LOSSES

As of March 31, 2007 and December 31, 2007, our activity in our reserves for credit losses is as follows (in thousands):

	Accounts Receivable	Lease-Related Assets	Total
Balance April 1, 2006	$ 2,060	$ 2,913	$ 4,973

Provision for Bad Debts	460	(1,027)	(567)
Recoveries	23	-	23
Write-offs and other	(483)	(245)	(728)
Balance March 31, 2007	2,060	1,641	3,701
Provision for Bad Debts	(4)	(341)	(345)
Recoveries	40	-	40
Write-offs and other	(320)	(40)	(360)
Balance December 31, 2007	$ 1,776	$ 1,260	$ 3,036

Table of Contents

5. RECOURSE AND NON-RECOURSE NOTES PAYABLE

Recourse and non-recourse obligations consist of the following:

	As of December 31, 2007	As of March 31, 2007
	(in thousands)	
National City Bank – Recourse credit facility of $35,000,000 expiring on July 21, 2009. At our option, the carrying interest rate is either LIBOR rate plus 175–250 basis points, or the Alternate Base Rate of the higher of prime, or federal funds rate plus 50 basis points, plus 0-25 basis points of margin. The interest rate at March 31, 2007 was 6.875%.	$ -	$ 5,000
Total recourse obligations	$ -	$ 5,000
Non-recourse equipment notes secured by related investments in leases with interest rates ranging from 4.90% to 7.75% for the nine months ended December 31, 2007 and 3.05% to 9.25% for year ended March 31, 2007.	$ 104,741	$ 148,136

During the nine months ended December 31, 2007, we sold portions of our lease portfolio. The sales were reflected in our financial statements as sales of leased equipment totaling approximately $40.5 million and cost of sales, leased equipment of $38.9 million. There was a reduction of investment in leases and leased equipment – net of $38.9 million and non-recourse notes payable of $12.4 million.

Principal and interest payments on the recourse and non-recourse notes payable are generally due monthly in amounts that are approximately equal to the total payments due from the lessee under the leases that collateralize the notes payable. Under recourse financing, in the event of a default by a lessee, the lender has recourse against the lessee, the equipment serving as collateral, and us. Under non-recourse financing, in the event of a default by a lessee, the lender generally only has recourse against the lessee, and the equipment serving as collateral, but not against us.

There are two components of the GE Commercial Distribution Finance Corporation (“GECDF”) credit facility: (1) a floor plan component and (2) an accounts receivable component. Under the floor plan component, our outstanding balances were $51.6 million and $55.5 million as of December 31, 2007 and March 31, 2007, respectively. Under the accounts receivable component, we did not have any outstanding balance as of December 31, 2007 and March 31, 2007. As of December 31, 2007, the facility agreement had an aggregate limit of the two components of $125 million, and the accounts receivable component had a sub-limit of $30 million, which bears interest at prime less 0.5%, or 7.75%. Effective October 29, 2007, the facility with GECDF was amended to increase the aggregate limit to $125 million from $100 million with a sub-limit on the accounts receivable component of $30 million. The temporary overline periods in the previous agreement were eliminated. Availability under the GECDF facility may be limited by the asset value of equipment we purchase 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 total tangible net worth and subordinated debt, and maximum debt to tangible net worth ratio of ePlus Technology, inc. We were in compliance with these covenants as of December 31, 2007. Either party may terminate with 90 days’ advance notice.

The facility provided by GECDF requires a guaranty of up to $10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its annual audited financial statements by certain dates. We are currently in compliance with this covenant. 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 sales business and as an operational function of our accounts payable process.

Borrowings under our $35 million line of credit from National City Bank are subject to and in compliance with certain covenants regarding minimum consolidated tangible net worth, maximum recourse debt