EPLUS INC
Form 10-K
June 06, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

oANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2013
OR
oTRANSITION 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 of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act.
Yes o No x

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 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 229.405 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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

x

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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

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

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 aggregate market value of the common stock held by non-affiliates of ePlus, computed by reference to the closing price at which the stock was sold as of September 30, 2012 was $160,444,431. The outstanding number of shares of common stock of ePlus as of May 31, 2013, was 8,150,418.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into the indicated parts of this Form 10-K:

Portions of the Company's definitive Proxy Statement relating to its 2013 annual meeting of shareholders (the "2013 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2013 Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the Company's fiscal year end to which this report relates.

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CAUTIONARY LANGUAGE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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," "belie "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— the integrating information technology (IT) hardware sales, third-party software assurance and maintenance, 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 of 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, 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 non-recourse financing for our 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.

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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 7, “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”).

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PART I

ITEM 1. BUSINESS

GENERAL

Our company was founded in 1990 and is a Delaware corporation. ePlus inc. is sometimes referred to in this Annual Report on Form 10-K as “we,” “our,” “us,” “ourselves,” or “ePlus.”

Our operations are conducted through two business segments. Our technology segment includes sales of information technology hardware, third-party software, professional engineering services, and third-party maintenance contracts and our proprietary software to commercial, government, and government-oriented entities. Our financing segment consists of the financing of equipment, software and related services to commercial, government, and government-oriented entities. See Note 14, “Segment Reporting” in the consolidated financial statements included elsewhere in this report.

ePlus inc. does not engage in any business other than serving as the parent holding company for the following operating companies:

Technology

- ePlus Technology, inc.;
- ePlus Systems, inc.;
- ePlus Content Services, inc.;
- ePlus Document Systems, inc.; and
- ePlus Technology Services, inc.

Financing

- ePlus Group, inc.;
- ePlus Government, inc.;
- ePlus Canada Company;
- ePlus Capital, inc.;
- ePlus Jamaica, inc.; and
- ePlus Iceland, inc.

We began using the name ePlus inc. in 1999 after changing our name from MLC Holdings, Inc. On March 31, 2003, the former entities ePlus Technology of PA, inc. and ePlus Technology of NC, inc. were merged into ePlus Technology, inc. This combination created one national entity to conduct our Technology sales and services business. ePlus Systems, inc. and ePlus Content Services, inc. were incorporated on May 15, 2001 and provide consulting services and proprietary software for enterprise supply management. ePlus Capital, inc. owns 100 percent of ePlus Canada Company, which was created on December 27, 2001 to transact business within Canada. ePlus Government, inc. was incorporated on September 17, 1997 to handle business servicing the federal government marketplace, which includes financing transactions that are generated through government contractors. ePlus Document Systems, inc. was incorporated on October 15, 2003 and provides proprietary software for document management.

ePlus Jamaica, inc. was incorporated on April 8, 2005 and ePlus Iceland, inc. was incorporated on August 10, 2005. Both companies are subsidiaries of ePlus Group, inc. and were created to transact business in Jamaica and Iceland,

respectively; however, neither entity has conducted any significant business, or has any employees or business locations outside the United States.

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OUR BUSINESS

Our primary focus is to deliver advanced technology and cloud-enablement solutions. We have evolved our offerings by continued investment to expand our professional and managed services, expanding our relationships with key vendors and broadening our vendor partnerships to capture opportunities in emerging technologies and developing proprietary software. Our current offerings include:

Technology Segment

- direct marketing of information technology equipment, third-party software; and third-party maintenance and services;
- professional services;
- proprietary software, including order-entry and order-management software (OneSource®), procurement, asset management, document management and distribution software, and electronic catalog content management software and services; and

Financing Segment

- leasing, and business process services to facilitate the acquisition and management of capital assets..

We have been in the business of selling, leasing, financing, and managing information technology and other assets for more than 22 years and have been licensing our proprietary software for more than 13 years. We currently derive the majority of our revenues from sales of Information Technology ("IT") products and providing general and advanced professional services through our technology segment, which was approximately 96% of total revenue for the year ended March 31, 2013, and leasing and financing services through our financing segment, which was approximately 4% of total revenue for the year ended March 31, 2013. Sales to Verizon Communications, Inc. for the year ended March 31, 2013, represented approximately 14% of our total revenues. No customers accounted for more than 10% of our total revenues for the years ended March 31, 2012 and 2011. Our technology and finance segments represented approximately 79% and 21%, respectively, of our consolidated earnings before taxes ("segment earnings"). Our sales are generated primarily by our direct sales force, inside sales representatives, and business development associates through telemarketing to our customers, which include commercial accounts; federal, state and local governments and agencies; hospitals and other healthcare providers; K-12 schools; higher education institutions, and other not-for-profit and social institutions. We utilize our vendor relationships to generate new business by introducing customers to new products through various demand generation campaigns and co-sponsored events. We also lease and finance equipment purchased by our customers, and supply software and services directly and through relationships with vendors and equipment manufacturers.

Our broad product offerings provide customers with a highly-focused, end-to-end, turnkey solution for purchasing, lifecycle management, and financing for IT products and services. In addition, we offer asset-based financing and leasing of capital assets and lifecycle management solutions for the assets during their useful life, including disposal. We offer our customers a multi-disciplinary approach for implementing, controlling, and maintaining cost savings throughout their organizations, allowing our customers to simplify their administrative processes, gain data transparency and visibility, and enhance internal controls and reporting.

The key elements of our business are:

Technology Segment

-

Direct IT Sales: We are a direct marketer and authorized reseller of leading IT products including Cisco Systems, Hewlett Packard, VMWare, NetApp, EMC, Citrix, Apple, Dell, and Microsoft, via our direct sales force and web-based ordering solution, OneSource®. These products consist of hardware, software, software assurance and maintenance contracts.

- Advanced Technology Solutions: We provide an array of solutions focused in the areas of data center, storage, security, cloud enablement, and IT infrastructure. Within these areas we have engineering expertise in Internet telephony and Internet communications, collaboration, cloud computing, virtual desktop infrastructure, network design and implementation, storage, security, virtualization, business continuity, visual communications, audio/visual technologies, maintenance, and implementation services to support our customer base as part of our consolidated service offering.

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- Proprietary Software: We offer proprietary software for enterprise supply management, which can be used as a stand-alone solution or be integrated as a component of a bundled solution. These include eProcurement, spend management, asset management, document management, and product content management software. These systems can be installed behind our customers' firewall or operated as a service hosted by us.

Our line of proprietary software products is called OneSource® and consists of the following products:

- Onesource®IT, online web based software portal for customers purchasing IT equipment, software, and services from us;
- OneSource®IT+, an online web based software portable for customers purchasing IT products from other suppliers and/or from us;
- OneSource® Procurement, a complete web-based software to facilitate procurement of any type of assets;
- OneSource® Asset Management, a software platform for managing and tracking corporate assets including hardware maintenance contracts;
- OneSource® Supplier Portal, a software application for catalog and content management used by customers and suppliers; and
- OneSource® DigitalPaper, a document management software application.

Financing Segment

- Leasing, Lease and Asset Management, and Lifecycle Management. We offer a wide range of leasing and financing options for IT products including both hardware and software and other capital assets (including medical equipment). These offerings include operating and direct finance leases as well as payment plans. We also provide lease process automation, disposal of end-of-life assets, and lifecycle management.

Our proprietary software and associated business process services allow us to better support and retain our customers in our technology and finance businesses. We have developed and acquired these products and services to distinguish us from our competition by providing a comprehensive offering to customers.

Our primary target customers are middle-market companies with annual revenues between $20 million and $2.5 billion and larger companies in the United States of America. We have over 2,300 active customers. We believe there are more than 50,000 target customers in this market.

INDUSTRY BACKGROUND

In the current marketplace, we believe demand for IT equipment, services, and financing is driven by the following industry trends:

- In recent years, the economy of the United States has partially recovered from the downturn resulting from the financial crisis which began in 2008, however, there is continuing economic weakness in geographic regions and markets, and widespread uncertainty resulting from the U.S. government's sequestration, the debt crisis in certain countries in the European Union. This uncertainty or actual occurrence of an 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.

- We believe that customers are continuing to focus on cost savings initiatives by utilizing technologies such as virtualization, cloud and mobile computing, and we continue to provide these and other advanced technology solutions to meet these needs.

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- We believe customers are focused on all aspects of cyber security, including intellectual property, data and business processes. A well-designed security program can protect the organization with perimeter security, access control, authentication, data integrity and confidentiality. We offer security services that enhance our customers' security programs, from their data centers to end-user mobile devices. These comprehensive and complex solutions may include consulting, hardware, software, and implementation, and ongoing maintenance and monitoring. We have continued to focus our resources in these areas to meet expected customer demand.

- We believe that customers are seeking to reduce the number of vendors they do business with for the purpose of improving internal efficiencies, enhancing accountability and improving supplier management practices, and reducing costs. We have continued to enhance our relationships with premier manufacturers and gained the engineering and sales certifications required to provide the most desired technologies for our customers. In addition, we continue to enhance our automated business processes and utilize our proprietary software as our OneSource® family of solutions, to make transacting business with us more efficient and cost effective for our customers. We introduced OneSource® IT as a portal for customers purchasing from us, and OneSource® IT+, to improve internal business process efficiencies for customers ordering from us and multiple suppliers. OneSource® IT+ is positioned to help our customers and prospects reduce the number of suppliers they purchase from, eliminate multiple and unique ordering processes, provide a consolidated view of IT purchases, consolidate invoice and payable processing and reduce the complexities of IT spending through multiple suppliers.

- We have continuously evolved our advanced professional service and software capabilities. We believe that we are distinctively positioned to take advantage of this shift in the purchasing process as evidenced by continued development of our various integrated solutions, which we began developing in 1999 (earlier than many other direct marketers) and we continue to believe that our bundled solution set is a leader in the marketplace because of its breadth and depth of offerings.

- We believe that we will continue to benefit from industry changes as a cost-effective provider of a full range of IT products and services with the added competitive advantage of our proprietary software. In addition, our ability to provide financing for capital assets to our customers and our lifecycle management solutions provides an additional benefit and differentiator in the marketplace. While purchasing decisions will continue to be influenced by product selection and availability, price, and convenience, we believe that our comprehensive set of solutions is a differentiator that businesses seek to reduce the total cost of ownership.

COMPETITION

The market for IT sales and professional services is intensely competitive, subject to economic conditions and rapid change, and significantly affected by new product introductions and other market activities of industry participants. We expect to continue to compete in all areas of our business against local, regional, national and international firms, including manufacturers; other direct marketers; national and regional resellers; and regional, national, and international services providers. In addition, many computer manufacturers may sell or lease directly to our customers, and our continued ability to compete effectively may be affected by the policies of such manufacturers.

We believe that we offer enhanced solution capabilities, broader product selection and availability, competitive prices, and greater purchasing convenience as compared to many of our competitors. In addition, our dedicated account executives offer the necessary support functions (e.g., software, purchases on credit terms, leasing, and efficient return processes) that many of our competitors do not usually provide. We believe that we are one of the few companies in the United States that offers, as a principal, a comprehensive solution, which can include eProcurement, leasing, advanced technology solutions, IT fulfillment, and end-to-end asset management services.

The leasing market is intensely competitive and subject to changing economic conditions and market activities of industry participants. We expect to continue to compete against local, regional, national and international firms, including banks, specialty finance companies, vendors' captive finance companies, and third-party leasing companies. Banks and other large financial services companies sell directly to business customers, particularly larger enterprise customers, and may provide other financial or ancillary services that we do not provide. Vendor captive leasing companies may utilize internal transfer pricing to effectively lower lease rates and/or bundle equipment sales and leasing to provide highly competitive packages to customers. Third-party leasing companies may have deep customer and contractual relationships that are difficult to displace. However, these competitors typically do not provide the breadth of product, service, and software offerings that we provide to our customers.

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We believe that we offer an enhanced leasing solution to our customers, which provides a business process services approach that can automate the leasing process and reduce our customers' cost of doing business. The solution incorporates value-added services at every step in the leasing process, including:

- front end processing, such as eProcurement, order aggregation, order automation, vendor performance measurement, ordering, reconciliation, and payment;
- lifecycle and asset ownership services, including asset management, change management, and property tax filing; and
- end-of-life services such as equipment audit, removal, and disposal.

In addition, we are able to bundle equipment sales and technically advanced professional services to provide a turnkey leasing solution. This allows us to differentiate ourselves with a customer service strategy that spans the continuum from fast delivery of competitively priced products to end-of-life disposal services, and a selling approach that permits us to grow with customers and solidify those relationships. We expanded our product and service offerings under our comprehensive set of solutions that combines our IT sales and professional services, leasing and financing services, asset management software and services, procurement software, and electronic catalog content management software and services.

In the software market, there are a number of companies developing and marketing business-to-business electronic commerce solutions similar to ours and competitors are adapting their product offerings to a Software-As-A-Service ("SAAS") platform. Some of these competitors and potential competitors include enterprise resource planning ("ERP") system vendors and other major software vendors that are expected to sell their procurement and asset management products along with their application suites. These ERP vendors have a significant installed customer base and have the opportunity to offer additional products to those customers as additional components of their respective application suites. We also face indirect competition from potential customers' internal development efforts and have to overcome potential customers' reluctance to move away from legacy systems and processes.

We believe that the principal competitive factors for success are scalability, functionality, ease-of-use, ease-of-implementation, ability to integrate with legacy systems, experience in business-to-business supply chain management, and knowledge of a business' asset management needs. We believe we can compete favorably with our competitors in these areas within our framework that consists of our OneSource® family of software, ePlus Leasing®, strategic sourcing, and business process outsourcing.

In all of our markets, some of our competitors have longer operating histories and greater financial, technical, marketing, and other resources than we do. In addition, some of these competitors may be able to respond more quickly to new or changing opportunities, technologies, and customer requirements. Many current and potential competitors also have greater name recognition and engage in more extensive promotional marketing and advertising activities, offer more attractive terms to customers, and adopt more aggressive pricing policies than we do.

For a discussion of risks associated with the actions of our competitors, see Item 1A, "Risk Factors" included elsewhere in this report.

STRATEGY

Our goal is to become a leading provider of bundled product and service solutions in the IT supply chain. The key elements of our strategy include the following:

- grow profitably by selling additional products and services to our existing customer base;
- expand geographically and build a national footprint to grow our customer base;

- recruit, retain and develop employees;
- expand our advanced technology solutions offerings; and
- improve our internal operational efficiencies and effectiveness.

Grow Profitably By Selling Additional Products and Services to Our Existing Customer Base

We seek to become the primary provider of IT solutions for our customers by delivering excellent customer service, pricing, availability, and professional services in the most efficient manner. We continue to focus on improving our sales efficiency by providing on-going training, targeted incentive compensation, and implementing better automation processes to reduce costs and improve productivity. Our account executives are trained on our broad solutions capabilities and to sell in a consultative manner that increases the likelihood of cross-selling our solutions. We believe that our bundled offerings are an important differentiating factor from our competitors.

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We created a software portal called OneSource®, which is an integrated order entry platform to enhance product sales, increase incremental sales, and reduce costs by eliminating touch-points for order automation. We further extended the OneSource® brand by creating two differentiated solutions: OneSource®IT, for purchasing from our catalog, and OneSource®IT+, for purchasing from ePlus and other technology vendors; both OneSource® and OneSource®IT+ are complementary applications offered to our customers. We continue to offer OneSource Procurement, OneSource®IT+, and OneSource Supplier Portal, a full suite of eProcurement, catalog content management, and spend analysis applications on an SAAS or enterprise basis.

We also have a group of experienced telesales professionals, engineers and inside sales representatives to support our outside sales reps. During fiscal year 2013, we further expanded the group, which included a second location and a new manager. This group is focused on marketing to existing and new customers primarily within the geographic reach of our existing service areas, supporting vendor demand generation campaigns, and marketing to specific vertical markets, such as healthcare.

Expand Geographically and Build a National Footprint

We intend to increase our direct sales and targeted marketing efforts in each of our geographic and vertical industry areas. We actively seek to acquire new account relationships through a new outbound telesales effort, face-to-face field sales, electronic commerce (especially OneSource®), leveraging our partnerships with manufacturers, and targeted direct marketing to increase awareness of our solutions. In particular, we are developing several industry market focuses, including healthcare, legal, and financial services. In addition to marketing to the private sector, we are expanding our public sector customers which include state, local and municipal governments, and educational institutions.

Recruit, Retain and Develop Employees

Based on our prior experience, capital structure, and business systems and processes, we believe we are well positioned to take advantage of hiring experienced sales people and engineers, and make strategic acquisitions that broaden our customer base, expand our geographic reach, scale our existing operating structure, and/or enhance our product and service offerings. Part of our growth strategy is to hire purposefully, evaluate and consider strategic hiring opportunities if and when they become available. During the fiscal year 2013, as part of our expansion strategy, our engineering and technical support staff grew from 226 to 267, while our sales force remained level only changing from 364 to 365 employees during the year.

Expanding Advanced Technology Solutions Offerings

We have focused on gaining engineering certifications and advanced professional services expertise in advanced technologies of strategic manufacturers, such as Cisco Systems, IBM, Hewlett Packard, NetApp, VMWare, EMC, and Oracle. We are especially focused on helping our customers develop their cloud capabilities including private, public, and hybrid infrastructures. We are actively working on virtual desktop infrastructure, unified communications, collaboration, networking, security, visual communications, audio/visual, storage, big-data, and managed services, that remain in high demand. In fiscal year 2012, we developed eCloud®, a comprehensive approach for customers who desire to utilize cloud computing. We believe our ability to deliver advanced professional services provides benefits in two ways. First, we gain recognition and mindshare of our strategic vendor partners and become the “go-to” partner in selected regional and national markets. This significantly increases direct and referral sales opportunities for our products and services, and allows us to achieve optimal pricing levels. Second, within our existing and potential customer base, our advanced professional services are a key differentiator against competitors who cannot provide services or advanced services for these key technologies.

Improve Operational Efficiencies

We continue to invest in our internal technology infrastructure and software platforms to optimize our operations, and to engage in process re-engineering efforts to become more streamlined and cost effective.

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RESEARCH AND DEVELOPMENT

In the early 2000s we acquired our own proprietary software products and hired employees to help us maintain and continually develop our software. We expense software development costs as they are incurred until technological feasibility has been established. At such time, development costs are capitalized until the product is made available for release to customers. For the year ended March 31, 2013, development costs of $351 thousand were capitalized and $92 thousand was amortized. For the year ended March 31, 2012, development costs of $116 thousand were capitalized and $148 thousand was amortized. For the year ended March 31, 2011, development costs of $343 thousand were capitalized and $162 thousand was amortized. We have other expenses relating to enhancements, upgrades, and other improvements which are not capitalized and are expensed as incurred. We have also outsourced certain programming tasks to an offshore software-development company to supplement our internal development support, and quality assurance resources. In addition, we continue to enhance our software and some or all of these costs may be considered period costs.

To successfully implement our business strategy and service the disparate requirements of our customers and potential customers, we have a flexible delivery model, which includes:

- hosted or subscription;
- traditional enterprise licenses; or
- SAAS, or a services model, where our personnel may utilize our software to provide one or more solutions to our customers.

We expect that competitive factors will create a continuing need for us to improve and add to our technology platform. The addition of new products and services will also require that we continue to improve the technology underlying our applications. We expect to continue to make significant investments in systems, personnel, and development to maintain a competitive advantage in this market.

SALES AND MARKETING

We focus our sales and marketing efforts on lead generation activities and converting our existing customer base to our bundled solution set. The target market for our customer base is primarily middle market companies with annual revenues between $20 million and $2.5 billion and large companies. We believe there are over 50,000 potential customers in our target market and we currently have over 2,300 customers. We undertake direct marketing campaigns to target certain markets in conjunction with our primary manufacturer partners, who may provide financial reimbursement, outsourced services, and personnel to assist us in these efforts.

Our sales representatives are compensated by a combination of salary and commission, with commission becoming the primary component of compensation as the sales representatives gain experience. To date, we acquired a majority of our customers through the efforts of our direct sales force. We market to different areas within a customer's organization depending on the products or services. We also market to customers through our telesales group, which consists of experienced telesales sales professionals and engineers. This group is focused on marketing to existing and new customers primarily within the geographic reach of our existing service areas.

As of March 31, 2013, our sales force was organized regionally in 28 office locations throughout the United States. See Item 2, "Properties" of this Form 10-K for additional office location information. As of March 31, 2013, our sales organization included 365 sales, marketing, and sales support personnel.

INTELLECTUAL PROPERTY RIGHTS

Our success depends in part upon proprietary business methodologies and technologies that we have licensed and modified. We own certain software programs or have entered into software licensing agreements to provide services to our customers. We rely on a combination of patents, copyrights, trademarks, service marks, trade secret protection, confidentiality and nondisclosure agreements and licensing arrangements to establish and protect intellectual property rights. We seek to protect our software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection.

For example, in the United States we have three patents generally directed to electronic sourcing systems and processes, six catalog management patents, three image transmission management patents, a patent for collaborative editing of electronic documents over a network, a hosted asset information management patent, and an eCatalog supplier portal patent, among others. We have counterparts of the electronic sourcing system patents in nine European forums and Japan, a counterpart of the image transmission management patents in six additional forums, and a counterpart for the collaborative editing of electronic documents patent has been issued in Canada. The three electronic sourcing system patents are currently under reexamination at the U.S. Patent and Trademark Office (USPTO). We cannot provide an assessment of the likely outcome of the proceedings and it may take years before they reach their ultimate resolution. We cannot provide assurance that any patents, as issued, will prevent the development of competitive products or that our patents will not be successfully challenged by others or invalidated through the administrative process or litigation. Otherwise, two of the three electronic sourcing system patents are scheduled to expire in 2014, the remaining one will expire in 2017; the three image transmission patents are scheduled to expire in 2018; the earliest of the catalog management patents is scheduled to expire in 2024; and the patent for collaborative editing of electronic documents over a network is scheduled to expire in 2025, provided that all maintenance fees are paid in accordance with USPTO regulations. We also have the following registered service/trademarks: ePlus®, eCloud ®, DirectSight®, Procure+®, Manage+®, ePlus Leasing®, Docpak®, Viewmark®, Digital Paper®, OneSource®, Content+®, eECM®, and ePlus Enterprise Cost Management®. In addition, we have over 20 registered copyrights and additional common-law trademarks and copyrights.

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Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult and can be expensive, and while we are unable to determine the extent to which piracy of our software products exists, software piracy could be expected to be a persistent problem. Our means of protecting our proprietary rights may not be adequate and our competitors may independently develop similar technology, duplicate our products or design around our proprietary intellectual property.

SALES AND FINANCING ACTIVITIES

We are in the business of selling and providing advanced technology solutions for a wide array of information technology products and software, leasing, and financing of IT and other capital assets and services, and we are a software publisher for procurement, content management, document management and asset management software. We currently derive the majority of our revenues from such activities.

IT Sales and Professional Services. We are an authorized reseller of, or have the right to resell products and services from, over 1,000 manufacturers. These products include hardware, software, software assurance, professional services, and maintenance contracts. Our most important manufacturer relationships include Cisco Systems, Hewlett Packard, NetApp, VMWare, EMC, Microsoft and Oracle. Tech Data and Ingram Micro, Inc. are the largest distributors we utilize. Generally, manufacturers require us to obtain and hold various technical and sales related certifications that authorize us to market their products and enable us to provide advanced professional services. Our flexible platform and customizable catalogs facilitate the addition of new vendors with minimal incremental effort. Using the distribution systems available, we usually sell products that are shipped from the manufacturers or distributors directly to our customer's location, which allows us to keep our inventory of any product and shipping expenses to a minimum. The products we sell typically have payment terms ranging from payment in advance, by credit card, due upon delivery, or 30 days to pay, depending on the customer’s credit and payment structure.

We also provide a range of professional services to help our customers improve productivity, profitability and revenue growth while reducing operating costs. We provide data center solutions, network services, security and wireless solutions, managed IT services, staff augmentation services, service and desktop support, Microsoft solutions and project management. Our services include the following:

- Data center solutions that enable customers to streamline operations, reduce complexity and costs, and simplify vendor management;
- Network services that aim to improve network performance for our customers;
- Security and wireless services, which are tailored for each organization to help safeguard its IT infrastructure with security and wireless solutions;
- Managed IT services to enable customers to reduce costs and burdens of their day-to-day IT tasks while monitoring availability, reliability and performance;
- Staff augmentation services that provide customers with flexible headcount options while allowing them to access talent, fill specific technology skill gaps, or provide short-term or long-term IT professional help;
- Server and desktop support provides outsourcing services to respond to our customers’ business demands while minimizing overhead;
- Professional services for a full range of Microsoft solutions;
- Business intelligence and data management services to help customers effectively use critical business information by enabling companies to aggregate, normalize, cleanse and analyze their data; and
- Project management services to enhance productivity and collaboration.

Leasing and Financing. Our leasing and financing transactions generally fall into two categories: direct financing and operating leases. Direct financing leases transfer substantially all of the benefits and risks of equipment ownership to the customer. Operating leases consist of all other leases that do not meet the criteria to be direct financing leases. Our lease transactions include leases and installment sales or conditional sales contracts with corporations, non-profit entities and municipal and federal government contractors. A large part of our lease transactions are net leases with a specified non-cancelable lease term and a fixed amount of rent. These non-cancelable leases have a provision which requires the lessee to make all lease payments without offset or counterclaim. Government leases are typically subject to annual funding by the governmental entity. A net lease requires the lessee to make the full lease payment and pay any other expenses associated with the use of equipment, such as maintenance, casualty and liability insurance, sales or use taxes and personal property taxes.

We primarily lease computers, associated accessories and software, communication-related equipment, and medical equipment, and we may also lease industrial machinery and equipment, office furniture and general office equipment, transportation equipment, and other general business equipment. In anticipation of the expiration of the term of a lease, we initiate the remarketing process for the related equipment. Our goal is to maximize revenues from the remarketing effort by either (1) re-leasing or selling the equipment to the initial lessee, (2) renting the equipment to the initial lessee on a month-to-month basis, or (3) selling the equipment to an equipment broker or (4) leasing the equipment to a different customer. The remarketing process is intended to enable us to recover or exceed the original estimated residual value of the leased equipment. Any amounts received over the estimated residual value less any commission expenses become profit to us and can significantly impact the degree of profitability of a lease transaction. We aggressively manage the remarketing process of our leases to maximize the profit margin on our leased equipment portfolio. To date, we have realized a premium over our estimated residual value.

Financing and Bank Relationships. We have a number of bank and finance company relationships that provide working capital for our businesses and long-term financing for our lease financing businesses. Our finance department is responsible for maintaining and developing relationships with a diversified pool of commercial banks and finance companies with varying terms and conditions. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.”

Risk Management and Process Controls. It is our goal to minimize the financial risks of our assets. To accomplish this goal, we use and maintain conservative underwriting policies and disciplined credit approval processes. We also have internal control processes, including credit management, contract origination and management, cash management, servicing, collections, remarketing and accounting. We may utilize non-recourse financing (which is secured by a lease’s underlying equipment and the specific lease and not our general assets) for our leasing transactions and we try to obtain lender commitments before acquiring the related assets.

When desirable, we manage our risk in assets by selling leased assets, including the residual portion of leases, to third parties rather than owning them. For certain transactions, we may act as an intermediary and obtain commitments for these asset sales before we consummate the lease. We also use agency purchase orders to procure equipment for lease to our customers as an agent, not a principal, and otherwise take measures to minimize our inventory. When our technology segment is the supplier under a lease, we maintain the risk from procurement. Additionally, we use fixed-rate funding and issue proposals that adjust for material adverse interest rate movements as well as material adverse changes to the financial condition of the customer.

We have an executive management review process and other internal controls in place to evaluate the transactions’ potential risk. Our lease and sale contracts are reviewed by senior management for pricing, structure, documentation, and credit quality. Due, in part, to our strategy of focusing on certain equipment categories, we have product knowledge, historical remarketing information and experience with many of the items that we lease, sell, and service. We rely on our experience or outside opinions to set and adjust our sale prices, lease rate factors, and residual values.

Default and Loss Experience. During the fiscal year ended March 31, 2013, we reduced our reserves for credit losses by $333 thousand, and incurred actual credit losses of $144 thousand. During the fiscal year ended March 31, 2012, we added $3.2 million to our reserves for credit losses, incurred actual credit losses of $378 thousand and had recoveries of $1 thousand. A significant portion of the increase in reserves for credit losses of approximately $2.9 million was related to a specific customer, which filed for bankruptcy in May 2012. During the fiscal year ended March 31, 2011, we added $85 thousand to our reserves for credit losses, incurred actual credit losses of $911 thousand and had recoveries of $12 thousand.

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EMPLOYEES

As of March 31, 2013, we employed 890 full-time and 14 part-time employees. These 890 employees operated through 28 office locations, including our principal executive offices and regional sales offices. No employees are represented by a labor union and we believe that we have good relations with our employees. The functional areas of our employees are as follows:

	Number of Employees
Sales and Marketing	365
Technical Support	267
Administration	174
Software and Implementations	75
Executive Management	9
	890

U.S. SECURITIES AND EXCHANGE COMMISSION REPORTS

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports, filed with or furnished to the U.S. Securities and Exchange Commission ("SEC"), are available free of charge through our Internet website, www.eplus.com, as soon as reasonably practical after we have electronically filed such material with, or furnished it to, the SEC. The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov. The contents on or accessible through, these websites are not incorporated into this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.

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EXECUTIVE OFFICERS

The following table sets forth the name, age and position of each person who was an executive officer of ePlus on March 31, 2013. There are no family relationships between any directors or executive officers of ePlus.

Name	Age	Position
Phillip G. Norton	68	Director, Chairman of the Board of Directors, President and Chief Executive Officer
Bruce M. Bowen	61	Director and Executive Vice President
Elaine D. Marion	45	Chief Financial Officer
Mark P. Marron	51	Chief Operating Officer
Steven J. Mencarini	57	Senior Vice President of Business Operations

The business experience of each executive officer of ePlus is described below:

Phillip G. Norton joined us in March 1993 and has served since then as our Chairman of the Board of Directors ("Board") and Chief Executive Officer. Mr. Norton has also served as our President since September 1996. Mr. Norton is a 1966 graduate of the U.S. Naval Academy, where he earned a Bachelor's of Science degree in engineering.

Bruce M. Bowen founded our company in 1990 and served as our President until September 1996. Since September 1996, Mr. Bowen has served as our Executive Vice President and from September 1996 to June 1997 also served as our Chief Financial Officer. Mr. Bowen has served on our Board since our founding. He is a graduate of the University of Maryland and in 1978 received a Masters of Business Administration from the University of Maryland.

Elaine D. Marion joined us in 1998. Ms. Marion became our Chief Financial Officer on September 1, 2008. Previously Ms. Marion served as our Vice President of Accounting from 2004. Prior to that, she was the Controller of ePlus Technology, inc., a subsidiary of ePlus, from 1998 to 2004. Ms. Marion is a graduate of George Mason University, where she earned a Bachelor's of Science degree in Business Administration with a concentration in accounting.

Mark P. Marron joined our subsidiary ePlus Technology, inc. in 2005 as Senior Vice President of Sales. On April 22, 2010 he was appointed as Chief Operating Officer of ePlus inc. and President of ePlus Technology, inc. Prior to joining us, from 2001 to 2005 Mr. Marron served as senior vice president of worldwide sales of NetIQ. Prior to joining NetIQ, Mr. Marron served as general manager of worldwide channel sales for Computer Associates International Inc. Mr. Marron holds a Bachelor's of Science degree in Computer Science from Montclair State University.

Steven J. Mencarini joined us in June 1997. On September 1, 2008, he became our Senior Vice President of Business Operations. Prior to that, he served as our Chief Financial Officer. Prior to joining us, Mr. Mencarini was Controller of the Technology Management Group of Computer Science Corporation ("CSC"). Mr. Mencarini joined CSC in 1991 as Director of Finance and was promoted to Controller in 1996. Mr. Mencarini is a graduate of the University of Maryland and received a Masters of Taxation from American University in 1985.

Each of our executive officers is chosen by the Board and holds his or her office until his or her successor shall have been duly chosen and qualified or until his or her death or until he or she resigns or is removed by the Board.

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ITEM 1A. RISK FACTORS

General Economic Weakness May Harm Our Operating Results and Financial Condition

Our results of operations are dependent, to a large extent, upon the state of the economy. Economic weakness and uncertainty may result, in the future, in decreased revenue, gross margin, and earnings or growth rates. Continued adverse economic conditions may decrease our customers' demand for our products and services or impair the ability of our customers to pay for products and services they have purchased. In addition, many state and municipal governments including public education who are our customers are experiencing financial difficulties which are causing budget shortfalls and could result in decreased demand for our products and services. If there are significant reductions in funding by the federal government to state and municipal governments, demand for our products and services may be adversely effected. As a result, our revenues could decrease and reserves for our credit losses and write-offs of accounts receivable may increase.

We Depend on Having Creditworthy Customers to Avoid an Adverse Impact on Our Operating Results and Financial Condition

Our financing and technology segments require sufficient amounts of debt and equity capital to fund our equipment purchases. If the credit quality of our customer base materially decreases, or if we experience a material increase in our credit losses, we may find it difficult to continue to obtain the required capital for our business, and our operating results and financial condition may be harmed. In addition to the impact on our ability to attract capital, a material increase in our delinquency and default experience would itself have a material adverse effect on our business, operating results and financial condition. We are also subject to changes, if any, in our lenders' willingness to provide financing for different, particularly lower, credit quality lessees.

As of March 31, 2013, 2012 and 2011, we had reserves for credit losses of $5.1 million, $5.6 million and $2.8 million, respectively. The reserve for credit losses as of March 31, 2013 and 2012 included a specific reserve of $2.8 million and $2.9 million, respectively, due to a customer that had filed for bankruptcy in May 2012.

If We Do Not Reserve Adequately for Our Credit Losses Our Earnings May be Adversely Affected

Our reserve for credit losses reflects management's judgment of the potential loss from our accounts and notes receivable and minimum lease payments associated with our investments in direct finance and sales-type leases. We base our judgment on the nature and financial characteristics of our obligors, general economic conditions and our bad debt experience. We also consider delinquency rates and the value of the collateral underlying the finance receivables. We cannot be certain that our reserve for credit losses will be adequate over time to cover credit losses in our portfolio because of unanticipated adverse changes in the economy or events adversely affecting specific customers, industries or markets. If our reserves for credit losses are not adequate, our business, operating results and financial condition may suffer.

Costs to Protect Our Intellectual Property May Affect Our Earnings

The legal and associated costs to protect our intellectual property may significantly increase our expenses and have a material adverse effect on our operating results. We may deem it necessary to protect our intellectual property rights and significant expenses could be incurred with no certainty of the results of these potential actions. Costs relative to lawsuits are usually expensed in the periods incurred and there is no certainty in recouping any of the amounts expended regardless of the outcome of any action. We incurred $3.3 million, $6.0 million, and $10.5 million in legal and other fees during the years ended March 31, 2013, 2012, and 2011, respectively, related to protecting our intellectual property.

We May Experience A Reduction in Incentives Offered to Us by Our Vendors That Would Affect Our Earnings

We receive payments and credits from vendors, including consideration pursuant to volume sales incentive programs, volume purchase incentive programs, shared marketing expense programs and early pay discounts. These programs are usually of finite terms and may not be renewed or may be changed in a way that has an adverse effect on us. Vendor funding is used to offset, among other things, inventory costs, costs of goods sold, marketing costs and other operating expenses. Certain of these funds are based on our volume of net sales or purchases, growth rate of net sales or purchases and marketing programs. If we do not grow our net sales over prior periods or if we are not in compliance with the terms of these programs, there could be a material negative effect on the amount of incentives offered or paid to us by vendors. We may not continue to receive such incentives or may not be able to collect outstanding amounts relating to these incentives in a timely manner, or at all. Any sizeable reduction in, the discontinuance of, a significant delay in receiving or the inability to collect such incentives, particularly related to incentive programs with our largest partners, including Cisco Systems and Hewlett Packard, could have a material adverse effect on our business, results of operations and financial condition. If we are unable to react timely to any fundamental changes in the programs of vendors, including the elimination of funding for some of the activities for which we have been compensated in the past, such changes could have a material adverse effect on our business, results of operations and financial condition.

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For the fiscal year ended March 31, 2013, vendor incentives earned decreased slightly as a percent of our consolidated sales of product and services. More specifically, the change in the amounts of vendor incentives earned during the fiscal year ended March 31, 2013 resulted in a 0.1% decrease in gross margin for products and services. The change in the amount of vendor incentives earned during the fiscal year ended March 31, 2012 resulted in a decrease to our gross margins for products and services of 0.3%; the change in incentives resulted in an increase in gross margins 0.4% for the fiscal year ended March 31, 2011.

If We Lost Several of Our Larger Customers Our Earnings May be Affected

The contracts for the provision of products from us to our customers are generally non-exclusive agreements without volume purchase commitments that are terminable by either party upon 30 days' notice. Either the loss of our largest customer or several of our other larger customers, or the failure of such customers to pay amounts due to us, or a material reduction in the amount of purchases made by such customers could have a material adverse effect on our business, financial position, results of operations and cash flows.

For the year ended March 31, 2013, sales to a large telecommunications company were approximately 14% of total revenues, all of which related to our technology segment. No customer accounted for more than 10% of our revenues for the years ended March 31, 2012 and 2011.

Changes in Accounting Rules May Adversely Affect Our Future Financial Results

We prepare our financial statements in conformity with accounting principles generally accepted in the United States. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, the Public Company Accounting Oversight Board, the Securities and Exchange Commission, the American Institute of Certified Public Accountants and various other bodies formed to interpret and create appropriate accounting policies. Products and services, and the manner in which they are bundled, are technologically complex and the characterization of these product and services require judgment in order to apply revenue recognition policies. Mischaracterization of these products and services could result in misapplication of revenue recognition polices. Future periodic assessments required by current or new accounting standards may result in noncash changes and/or changes in presentation or disclosure. In addition, any change in accounting standards may influence our customers' decision to purchase from us or finance transactions with us, which could have a significant adverse effect on our financial position or results of operations.

We May Be Required to Take Additional Impairment Charges for Goodwill or Other Intangible Assets Related to Acquisitions

We have acquired certain portions of our business and certain assets through acquisitions. Further, as part of our long-term business strategy, we may continue to pursue acquisitions of other companies or assets. In connection with prior acquisitions, we have accounted for the portion of the purchase price paid in excess of the book value of the assets acquired as goodwill or intangible assets, and we may be required to account for similar premiums paid on future acquisitions in the same manner.

Under the applicable accounting principles, goodwill is not amortized and is carried on our books at its original value, subject to annual review and evaluation for impairment, whereas intangible assets are amortized over the life of the asset. Changes in the business itself, the economic environment (including business valuation levels and trends), or the legislative or regulatory environment may trigger a review and evaluation of our goodwill and intangible assets for potential impairment outside of the normal review periods. These changes may adversely affect either the fair value of the business or the fair value of our individual reporting units and we may be required to take an impairment charge.

If market and economic conditions deteriorate, this could increase the likelihood that we will need to record impairment charges to the extent the carrying value of our goodwill exceeds the fair value of our overall business. Such impairment charges could materially adversely affect our net earnings during the period in which the charge is taken. As of March 31, 2013, we had goodwill and other intangible assets of $33.0 million.

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We May Not Be Able to Realize Our Entire Investment in the Equipment We Lease

The realization of equipment values (residual values) during the life and predominantly at the end of the term of a lease is an important element in our leasing business. At the inception of each lease, we record a residual value for the leased equipment based on our estimate of the future value of the equipment at the expected disposition date.

A decrease in the market value of leased equipment at a rate greater than the rate we projected, whether due to rapid technological or economic obsolescence, unusual wear and tear on the equipment, excessive use of the equipment, or other factors, would adversely affect the recoverability of the estimated residual values of such equipment. Further, certain equipment residual values are dependent on the manufacturer’s or vendor’s warranties, reputation and other factors, including market liquidity. In addition, we may not realize the full market value of equipment if we are required to sell it to meet liquidity needs or for other reasons outside of the ordinary course of business. Consequently, there can be no assurance that we will realize our estimated residual values for equipment.

The degree of residual realization risk varies by transaction type. Direct financing leases bear less risk because contractual payments cover approximately 90% or more of the equipment’s lease cost at inception. Operating leases have a higher degree of risk because a smaller percentage of the equipment’s value is covered by contractual cash flows at lease inception.

We Depend on Third-Party Companies to Perform Some of Our Obligations to Our Customers, Which if Not Performed Could Cause Significant Disruption to Our Business

We rely on arrangements with third parties to perform certain services for our customers, which, if not performed in accordance with the terms of the agreement, could result in significant disruptions or costs to our organization, including damaging customer relationships, if these third parties do not meet their obligations or maintain adequate service levels.

We rely on arrangements with independent shipping companies, such as FedEx and United Parcel Service, for the delivery of our products from us and our vendors to our customers. The failure or inability of these shipping companies to deliver products, or the unavailability of their shipping services, even temporarily, could have an adverse effect on our business. We may also be adversely affected by an increase in freight surcharges due to rising fuel costs and added security.

The Soundness of Financial Institutions With Which We Have Relationships Could Adversely Affect Us

We have relationships with many financial institutions, including the lender under our credit facility, and, from time to time, we execute transactions with counterparties in the financial services industry. Some of our balances that we maintain with various financial institutions may exceed the $250,000 maximum insured deposit amount by the FDIC. As a result, defaults by, or even rumors or questions about, financial institutions or the financial services industry generally, could result in losses or defaults by these institutions. In the event that the volatility of the financial markets adversely affects these financial institutions or counterparties, we or other parties to the transactions with us may be unable to access credit facilities or complete transactions as intended, which could adversely affect our business and results of operations.

Changes in the IT Industry and/or Rapid Changes in Product Standards May Result in Reduced Demand for the IT Hardware, Software and Services We Sell

Our results of operations are influenced by a variety of factors, including the condition of the IT industry, shifts in demand for, or availability of, IT hardware, software, peripherals and services, and industry introductions of new

products, upgrades or methods of distribution. The IT industry is characterized by rapid technological change and the frequent introduction of new products, product enhancements and new distribution methods or channels, each of which can decrease demand for current products or render them obsolete. Sales of product and services can be dependent on demand for specific product categories, and any change in demand for or supply of such products could have a material adverse effect on our total revenues, if we fail to react in a timely manner to such changes.

We Rely on Inventory and Accounts Receivable Financing Arrangements for Working Capital and Our Accounts Payable Processing

The loss of the technology segment's credit facility could have a material adverse effect on our future results as we rely on this facility and its components for daily working capital and the operational function of our accounts payable process. Our credit agreement contains various covenants that must be met each quarter. There can be no assurance that we will continue to meet those covenants and failure to do so may limit availability of, or cause us to lose, such financing. There can be no assurance that such financing will continue to be available to us in the future on acceptable terms.

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We May Not Adequately Protect Ourselves Through Our Contract Vehicles or Insurance Policies

Our contracts may not protect us against the risks inherent in our business including, but not limited to, warranties, limitations of liability, human resources and subcontractors, related claims, patent and product liability, and financing activities. Despite the non-recourse nature of the loans financing certain of our activities, non-recourse lenders have, in the past, brought suit when the underlying transaction turns out poorly for the lenders. We have vigorously defended such cases in the past and will do so in the future, however, we are subject to such suits and the cost of defending such suits due to the nature of our business.

We Rely on a Small Number of Key Vendors and Do Not Have Long-term Supply or Guaranteed Price Agreements or Assurance of Stock Availability with Our Vendors

A substantial portion of our sales of product and services are dependent on a small number of key manufacturers including Cisco Systems and Hewlett Packard. Products manufactured by Cisco Systems represented approximately 48%, 45% and 40% of our total sales of product and services for the years ended March 31, 2013, 2012 and 2011, respectively. Products manufactured by Hewlett Packard represented approximately 11%, 15% and 19% of our total sales of product and services for the years ended March 31, 2013, 2012 and 2011, respectively.

Our industry frequently experiences periods of product shortages from our vendors as a result of our vendors' difficulties in projecting demand for certain product sold by us, additional trade law provisions or regulations, additional duties, tariffs or other charges on imports or exports, natural disasters affecting our suppliers' facilities, and significant labor disputes. As we do not stock inventory that is not related to an order we have received from our customer, we are dependent upon the supply of products available from our vendors in order to fulfill orders from our customers on a timely basis.

The loss of a key vendor or manufacturer or changes in its policies could adversely impact our financial results. In addition, violation of a contract that results in either the termination of our ability to sell the product or a decrease in our certification level with the manufacturer could adversely impact our financial results.

Our Officers and Directors Own a Significant Amount of Our Common Stock and May be Able to Exert a Significant Influence over Corporate Matters

Our officers and directors beneficially own, in the aggregate, approximately 52.2% of our outstanding common stock as of March 31, 2013. As a result, these stockholders acting together will be able to exert considerable influence over the election of our directors and the outcome of most corporate actions requiring stockholder approval. Such concentration of ownership may have the effect of delaying, deferring or preventing a change of control of ePlus and consequently could affect the market price of our common stock.

We May Not Be Able to Hire and/or Retain Personnel That We Need to Succeed

To increase market awareness and sales of our offerings, we may need to expand our sales operations and marketing efforts in the future. Our products and services require a sophisticated sales effort and significant technical support. For example, our sales and engineering candidates must have highly technical hardware and software knowledge in order to create a customized solution for our customers' business processes. Competition for qualified sales, marketing and technical personnel fluctuates depending on market conditions and we may not be able to hire or retain sufficient numbers of such personnel to maintain and grow our business. Increasingly, our competitors are requiring their employees to agree to non-compete and non-solicitation agreements as part of their employment, and this could make it more difficult for us to hire those persons.

We Face Substantial Competition From Larger Companies As Well As Our Manufacturers and Financial Partners

In our technology segment, manufacturers may choose to market their products directly to end-users, rather than through resellers such as our company, and this could adversely affect our future sales. In addition, a reduction in the amount of credit granted to us by our vendors and financial partners could increase our need for and cost of working capital and have a material adverse effect on our business, results of operations and financial condition. Many competitors compete principally on the basis of price and may have lower costs or accept lower selling prices than us and, therefore, current gross margins may not be maintainable. In addition, we do not have guaranteed sales volume commitments from our customers and, therefore, our sales volume may be volatile.

In our financing segment, we face competition from many sources including much larger companies with greater financial resources. Our competition may originate from manufacturers of the products we lease or financial partners who choose to market directly to customers through the manufacturers' captive leasing organization or large financial institutions such as banks with substantially lower cost of funds. Our competition may lower lease rates in order to increase market share.

We Face Risks of Claims From Third Parties for Intellectual Property Infringement That Could Harm Our Business

We may be subject to claims on our products and services or products that we resell infringe on the intellectual property rights of third parties. The manufacturer of certain products or services we resell, may not provide us with indemnification for infringement. However, our customers may seek indemnification from us. We could incur substantial costs in defending ourselves and our customers against infringement claims. In the event of a claim of infringement, we and our customers may be required to obtain one or more licenses from third parties. We may not be able to obtain such licenses from third parties at a reasonable cost or at all. Defense of any lawsuit or failure to obtain any such required license could significantly increase our expenses and/or adversely affect our ability to offer one or more of our services.

We May be Liable for Misappropriation of Our Customers' Corporate Information

The security systems used in our product and service offerings may be circumvented or sabotaged by third parties, which could result in the disclosure of sensitive corporate information or private personal information, unauthorized procurement, or cause other business interruptions that could damage our reputation and disrupt our business.

If third parties or our employees are able to penetrate our network security or otherwise misappropriate our customers' information such as credit card information, or such information for which our customers may be responsible and for which we agree to be responsible in connection with service contracts we may enter, or if we give third parties or our employees improper access to certain information, we could be subject to liability. This liability could include claims for unauthorized purchases with credit card information, identity theft or other similar fraud-related claims. This liability could also include claims for other misuses of personal information, including for unauthorized marketing purposes. Other liability could include claims alleging misrepresentation of our privacy and data security practices. Any such liability for misappropriation of this information could decrease our profitability. In addition, the Federal Trade Commission and state agencies have been investigating various companies regarding whether they misused or inadequately secured personal information regarding consumers. We could incur additional expenses if new laws or regulations regarding the use of sensitive information are introduced or if government agencies investigate our privacy practices.

We seek to rely on encryption and authentication technology to provide the security and authentication necessary to effect secure online transmission of confidential information such as customer credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments may result in a compromise or breach of our security practices we use to protect sensitive customer transaction data. A party who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. We may be required to expend significant capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches. Our security measures are designed to protect against security breaches, but our failure to prevent such security breaches could cause us to incur significant expense to investigate and respond to a security breach and correct any problems caused by any breach, subject us to liability, damage our reputation and diminish the value of our brand-name.

We May Not Have Designed Our Information Technology Systems to Support Our Business without Failure

We are dependent upon the reliability of our information, telecommunication and other systems, which are used for sales, distribution, marketing, purchasing, inventory management, order processing, customer service and general accounting functions. Interruption or poor design of our information systems, Internet or telecommunications systems could have a material adverse effect on our business, financial condition, cash flows or results of operations.

If We Fail to Integrate Acquisitions, Our Profitability May Be Adversely Affected

Our ability to successfully integrate the operations we acquire, to reduce costs, or leverage these operations to generate revenue and earnings growth, could significantly impact future revenue and earnings. Integrating acquired operations is a significant challenge and there is no assurance that we will be able to manage the integrations successfully. Failure to successfully integrate acquired operations may adversely affect our cost structure thereby reducing our gross margins and return on investment. In addition, we may acquire entities with unknown liabilities, fraud, cultural or business environment issues or that may not have adequate internal controls as may be required by law.

If We Are Unable to Protect Our Intellectual Property, Our Business May Suffer

The success of our business strategy depends, in part, upon proprietary technology and other intellectual property rights. To date, we have relied primarily on a combination of copyright, trademark, patent and trade secret laws and contractual provisions with our customers, subcontractors and employees to protect our proprietary technology. It may be possible for unauthorized third parties to copy certain portions of our products or reverse engineer or obtain and use information that we regard as proprietary. Some of our agreements with our customers and technology licensors contain residual clauses regarding confidentiality and the rights of third parties to obtain the source code for our products. These provisions may limit our ability to protect our intellectual property rights in the future that could seriously harm our business and operating results. Our means of protecting our intellectual property rights may not be adequate.

Changes in Taxes and Other Regulatory Legislation May Require Us to Change Our Policies or Structure

We operate in compliance with applicable laws and regulations. When new legislation is enacted with minimal advance notice, or when new interpretations or applications of existing laws are made, we may need to implement changes in our policies or structure.

We plan our structure and operations based upon existing laws and anticipated future changes in the law. We are susceptible to unanticipated changes in legislation, especially relating to income and other taxes, as well as other laws related to trade and business activities. Such changes in legislation may have a significant adverse effect on our business.

The Trend of Increasing Costs to Provide Health Care and Other Benefits to Employees May Continue.

We provide health care and other benefits to our employees and their families. For many years, costs for health care have increased more rapidly than general inflation in the U.S. economy. If this trend in health care costs continues, our cost to provide such benefits could increase, adversely impacting our profitability. Changes to health care regulations in the U.S. may also increase our cost of providing such benefits.

Our Electronic-Commerce Related Products and Services Subject Us to Challenges and Risks in a Rapidly Evolving Market

As a provider of a comprehensive set of solutions, which involves the bundling of direct IT sales, professional services and financing with our proprietary software, we expect to encounter some of the challenges, risks, difficulties and uncertainties frequently encountered by companies providing new and/or bundled solutions in rapidly evolving markets. Some of these challenges include our ability to: increase the total number of users of our services, adapt to meet changes in our markets and competitive developments or continue to update our technology to enhance the features and functionality of our suite of products. Our business strategy may not be successful or successfully address these and other challenges, risks and uncertainties.

In the software market, there are a number of companies developing and marketing business-to-business electronic commerce solutions similar to ours, and competitors are adapting their product offerings to a SAAS platform. Some of these competitors and potential competitors include ERP system vendors and other major software vendors that are expected to sell their procurement and asset management products along with their application suites. These ERP vendors have a significant installed customer base and have the opportunity to offer additional products to those customers as additional components of their respective application suites. We may not be able to compete successfully against current or future competitors, and competitive pressures faced by us may harm our business, operating results or financial condition. We also face indirect competition from potential customers' internal development efforts and

have to overcome potential customers' reluctance to move away from legacy systems and processes.

In all of our markets, some of our competitors have longer operating histories and greater financial, technical, marketing, and other resources than we do. In addition, some of these competitors may be able to respond more quickly to new or changing opportunities, technologies, and customer requirements. Many current competitors may have, and potential competitors may have, greater name recognition and engage in more extensive promotional marketing and advertising activities, offer more attractive terms to customers, and adopt more aggressive pricing policies than we do.

We expect to incur significant sales and marketing, and general and administrative expenses in connection with the development of these areas of our business; however, we may not be successful in achieving revenue growth. These expected expenses may have a material adverse effect on our future operating results as a whole.

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If Our Proprietary Software Products Contain Defects, Our Business Could Suffer

Products as complex as those used to provide our electronic commerce solutions often contain unknown and undetected errors or performance problems. We may have serious defects immediately following introduction of new products or enhancements to existing products. Undetected errors or performance problems may not be discovered in the future and errors considered by us to be minor may be considered serious by our customers. In addition, our customers may experience a loss in connectivity by our SAAS solution as a result of a power loss at our data center, Internet interruption or defects in our software. This could result in lost revenues, delays in customer acceptance or unforeseen liabilities that would be detrimental to our reputation and to our business.

If We Publish Inaccurate Catalog Content Data, Our Business Could Suffer

Any defects or errors in catalog content data could harm our customers or deter businesses from participating in our offering, damage our business reputation, harm our ability to attract new customers, and potentially expose us to legal liability. In addition, from time to time vendors who provide us electronic catalog data could submit to us inaccurate pricing or other catalog data. Even though such inaccuracies are not caused by our work and are not within our control, such inaccuracies could deter current and potential customers from using our products or result in inaccurate pricing to our customers.

Our Earnings May Fluctuate, Which Could Adversely Affect the Price of Our Common Stock

Our earnings are susceptible to fluctuations for a number of reasons, including, but not limited to, the risk factors discussed above. In the event our revenues or net earnings are less than the level expected by the market in general, such shortfall could have an immediate and significant adverse impact on the market price of our common stock.

ITEM 1B.UNRESOLVED STAFF COMMENTS

None.

ITEM 2.PROPERTIES

As of March 31, 2013, we operated from 28 office locations, and a number of home or site based offices. Our total leased square footage as of March 31, 2013, was approximately 194 thousand square feet for which we incurred rent expense of approximately $238 thousand per month. Some of our companies operate in shared office space to improve sales, marketing and cost efficiency. Some sales and technical service personnel operate from either residential offices or space that is provided for by another entity or are located on a customer site. The following table identifies our largest locations, the number of employees as of March 31, 2013, the square footage and the general office functions.

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Location	Company	Employees	Square Footage	Function
Herndon, VA	ePlus Group, inc. ePlus Technology, inc. ePlus Government, inc. ePlus Document Systems, inc.	289	55,880	Corporate and subsidiary headquarters, sales office, technical support and warehouse
Sterling, VA	ePlus Technology, inc.	2	12,859	Warehouse
Richmond, VA	ePlus Technology, inc.	14	4,194	Sales office and technical support
Columbia, MD	ePlus Technology, inc.	16	3,589	Sales office and technical support
Pittsford, NY	ePlus Systems, inc.	9	2,577	Sales office and technical development
Hauppauge, NY	ePlus Technology, inc.	27	8,370	Sales office, technical support and warehouse
New York City, NY	ePlus Technology, inc.	26	6,278	Sales office and technical support
Newtown, PA	ePlus Technology, inc.	16	3,784	Sales office and technical support
Pottstown, PA	ePlus Technology, inc.	75	16,300	Sales office, technical support and warehouse
Avon, CT	ePlus Systems, inc.	13	2,345	Sales office and technical development
Westwood, MA	ePlus Technology, inc.	27	4,012	Sales office and technical support
Bedford, NH	ePlus Technology, inc.	16	6,508	Sales office and technical support
Mt. Laurel, NJ	ePlus Technology, inc.	17	3,435	Sales office and technical support
Charlotte, NC	ePlus Technology, inc.	6	2,098	Sales office and technical support
Raleigh, NC	ePlus Technology, inc.	26	7,199	Sales office-shared, technical support and warehouse
Wilmington, NC	ePlus Technology, inc.	13	4,000	Sales office-shared, technical support and warehouse
Elgin, IL	ePlus Technology, inc.	11	4,303	Sales office and technical support
Irvine, CA	ePlus Technology, inc.	33	8,982	Sales office, technical support and warehouse
Sunnyvale, CA	ePlus Technology, inc.	48	11,200	Sales office, technical support and warehouse
Colorado Springs, CO	ePlus Technology, inc.	16	3,984	Sales office and technical support
Austin, TX		15	3,190	Sales office and technical support

	ePlus Technology, inc.			
Dallas, TX	ePlus Technology, inc.	8	3,153	Sales office and technical support
Houston, TX	ePlus Technology, inc.	16	9,813	Sales office-shared, technical support and warehouse
Other Office Location		10	6,104	Sales offices and technical support
Home Office/Customer Site		141	-	
Total		890	194,157	

Our largest office location is in Herndon, VA, which has a lease expiration date of December 31, 2014.

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ITEM 3. LEGAL PROCEEDINGS

In June 2007 ePlus Group, inc. filed a suit in the United States District Court for the Western District of Michigan against The Huntington National Bank ("Huntington"). The complaint alleges counts of aiding and abetting fraud, aiding and abetting conversion, and statutory conversion, relating to our former customer, Cyberco Holdings, Inc, which was perpetrating a scam. Summary judgment was granted in favor of Huntington with regard to our claims in the suit. A final judgment was entered in February 2012. We filed an appeal with the United States Court of Appeals for the Sixth Circuit ("Sixth Circuit"), and on April 8, 2013, the Sixth Circuit affirmed the grant of summary judgment. On May 30, 2013, the Sixth Circuit denied our petition for rehearing.

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 a finding of infringement, as well as the injunction, and remanded the case to the trial court for consideration of what changes, if any, are required to the terms of the injunction. On January 29, 2013, the Appeals Court denied our petition for rehearing of certain elements of its opinion. ePlus is seeking damages with respect to contempt of the injunction for the period dating back to May of 2011, when the injunction was issued. A hearing and oral argument on that petition for contempt were held in April 2013. However, court calendars are inherently unpredictable, and we cannot predict when the trial court will issue a ruling.

We may be or 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

At March 31, 2013, our common stock traded on The NASDAQ Global Select Market under the symbol "PLUS." Prior to January 3, 2012, the shares of common stock traded on NASDAQ Global Market. The following table sets forth the range of high and low closing prices for our common stock during each quarter of the two fiscal years ended March 31, 2013 and 2012.

Quarter Ended	High	Low
Fiscal Year 2013		
March 31, 2013	$ 48.84	$ 42.82
December 31, 2012	$ 42.54	$ 35.46
September 30, 2012	$ 39.28	$ 31.00
June 30, 2012	$ 33.58	$ 29.13
Fiscal Year 2012		
March 31, 2012	$ 33.95	$ 26.44
December 31, 2011	$ 28.81	$ 23.24
September 30, 2011	$ 27.94	$ 22.36
June 30, 2011	$ 28.19	$ 23.06

On May 31, 2013, the closing price of our common stock was $49.73 per share. On May 31, 2013, there were 183 shareholders of record of our common stock. We believe there are approximately 1,900 beneficial holders of our common stock.

DIVIDEND POLICIES AND RESTRICTIONS

Holders of our common stock are entitled to dividends if and when declared by our Board out of funds legally available. Generally we have retained our earnings for use in the business. We currently intend to retain future earnings to fund ongoing operations and finance the growth and development of our business. Any future determination concerning the payment of dividends will depend upon our financial condition, results of operations, capital requirements and any other factors deemed relevant by our Board.

During the year ended March 31, 2013, our Board approved a one-time special cash dividend of $2.50 per share, which was paid December 26, 2012 to shareholders of record as of the close of business on December 17, 2012.

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PURCHASES OF OUR COMMON STOCK

The following table provides information regarding our purchases of ePlus inc. common stock during the fiscal year ended March 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, 2012 through April 30, 2012	10,401	$ 29.47	10,401	436,044	(2)
May 1, 2012 through May 31, 2012	9,022	$ 29.45	9,022	427,022	(3)
June 1, 2012 through June 30, 2012	17,198	$ 33.57	-	427,022	(4)
July 1, 2012 through July 31, 2012	-	-	-	427,022	(5)
August 1, 2012 through August 31, 2012	11,609	$ 35.14	-	427,022	(6)
September 1, 2012 through September 15, 2012	-	-	-	427,022	(7)
September 16, 2012 through September 30, 2012	-	-	-	500,000	(8)
October 1, 2012 through October 31, 2012	-	-	-	500,000	(9)
November 1, 2012 through November 30, 2012	9,121	$ 36.36	-	500,000	(10)
December 1, 2012 through December 31, 2012	-	-	-	500,000	(11)
January 1, 2013 through January 31, 2013	-	-	-	500,000	(12)
February 1, 2013 through February 28, 2013	-	-	-	500,000	(13)
March 1, 2013 through March 31, 2013	-	-	-	500,000	(14)

(1) All shares acquired were in open-market purchases, except for 37,928 shares, which were repurchased to satisfy tax withholding obligations that arose due to the vesting of shares of restricted stock.

(2) The share purchase authorization in place for the month ended April 30, 2012 had purchase limitations on the number of shares of up to 500,000 shares. As of April 30, 2012, the remaining authorized shares to be purchased were 436,044.

(3) The share purchase authorization in place for the month ended May 31, 2012 had purchase limitations on the number of shares of up to 500,000 shares. As of May 31, 2012, the remaining authorized shares to be purchased were 427,022.

(4) The share purchase authorization in place for the month ended June 30, 2012 had purchase limitations on the number of shares of up to 500,000 shares. As of June 30, 2012, the remaining authorized shares to be purchased were 427,022.

(5) The share purchase authorization in place for the month ended July 31, 2012 had purchase limitations on the number of shares of up to 500,000 shares. As of July 31, 2012, the remaining authorized shares to be purchased were 427,022.

(6) The share purchase authorization in place for the month ended August 31, 2012 had purchase limitations on the number of shares of up to 500,000 shares. As of August 31, 2012, the remaining authorized shares to be purchased were 427,022.

(7) The share purchase authorization in place for the period from September 1 to September 15, 2012 had purchase limitations on the number of shares of up to 500,000 shares. As of September 15, 2012, the remaining authorized shares to be purchased were 427,022.

(8) On August 13, 2012 our Board authorized a share repurchase plan commencing on September 16, 2012. The share purchase authorization in place for the period from September 16 to September 30, 2012 had purchase limitations on the number of shares of up to 500,000 shares. As of September 30, 2012, the remaining authorized shares to be purchased were 500,000.

(9) The share purchase authorization in place for the month ended October 31, 2012 had purchase limitations on the number of shares of up to 500,000 shares. As of October 31, 2012, the remaining authorized shares to be purchased were 500,000.

(10) The share purchase authorization in place for the month ended November 30, 2012 had purchase limitations on the number of shares of up to 500,000 shares. As of November 30, 2012, the remaining authorized shares to be purchased were 500,000.

(11) The share purchase authorization in place for the month ended December 31, 2012 had purchase limitations on the number of shares of up to 500,000 shares. As of December 31, 2012, the remaining authorized shares to be purchased were 500,000.

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

(13) The share purchase authorization in place for the month ended February 28, 2013 had purchase limitations on the number of shares of up to 500,000 shares. As of February 28, 2013, the remaining authorized shares to be purchased were 500,000.

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

The timing and expiration date of the stock repurchase authorizations as well as an amendment to our current repurchase plan are included in Note 10, “Stockholders’ Equity” to our consolidated financial statements included elsewhere in this report.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and with the consolidated financial statements and related notes, which are included elsewhere in this Form 10-K.

The selected consolidated statement of operations data for the years ended March 31, 2013, 2012 and 2011 and the selected consolidated balance sheet data as of March 31, 2013 and 2012 presented below was derived from our audited consolidated financial statements, which are included elsewhere herein.

	For the years ended March 31,				
	2013	2012 (1)	2011 (1)	2010 (1)	2009 (1)
	(in thousands, except per share data)				
Sales of product and services	$ 936,228	$ 784,951	$ 672,303	$ 499,359	$ 523,750
Total revenues	$ 983,112	$ 825,581	$ 718,515	$ 550,612	$ 581,863
Cost of sales, product and services	$ 767,447	$ 645,558	$ 551,860	$ 410,880	$ 436,244
Total costs and expenses	$ 924,367	$ 786,007	$ 677,947	$ 529,530	$ 559,815
Earnings before provision for income taxes	$ 58,745	$ 39,574	$ 40,568	$ 21,082	$ 22,048
Net earnings	$ 34,830	$ 23,367	$ 23,727	$ 12,745	$ 12,829
Net earnings per common share - basic	$ 4.37	$ 2.82	$ 2.83	$ 1.53	$ 1.56
Net earnings per common share - diluted	$ 4.32	$ 2.79	$ 2.78	$ 1.49	$ 1.51
Dividend per common share	$ 2.50	$ -	$ -	$ -	$ -

	As of March 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Cash and cash equivalents	$52,720	$33,778	$75,756	$85,077	$107,788
Short-term investments	$982	$7,396	$-	$-	$-
Accounts receivable—net	$192,254	$174,599	$121,771	$108,752	$82,734
Investment in leases and leased equipment—net	$90,710	$115,974	$117,667	$152,912	$118,615
Total assets	$437,872	$433,688	$389,191	$405,246	$363,487
Non-recourse and recourse notes payable	$41,739	$28,055	$29,592	$53,679	$85,079
Total liabilities	$199,640	$214,061	$177,214	$220,140	$189,400
Total stockholders' equity	$238,232	$219,627	$211,977	$185,106	$174,087

(1) Our financial results were corrected to present our earnings per share using the two-class method. Basic earnings per share decreased by $0.10, $0.06, and $0.01 for the years ended March 31, 2012, 2011, and 2010, respectively. Diluted earnings per share decreased by $0.05, $0.04, $0.01and $0.01 for the years ended March 31, 2012, 2011, 2010, and 2009, respectively.

Our sales of product and services are affected by our customers' investment in technology products and related services, which in turn, are driven by the general economic conditions and our customers' business outlook. Although sales increased during the year ended March 31, 2013, there is no guarantee that the trend will continue. Our gross

margins are driven by the mix of products and service sales and incentives received from manufacturers and/or distributors. During recent years, we gradually reduced our non-recourse and recourse notes payable balance as we invested our cash in the lease portfolio to increase our overall returns. However, our investment in leases and leased equipment has decreased primarily due to sales of leases.

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ITEM 7.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations ("financial review") of ePlus is intended to help investors understand our company and our operations. The financial review is provided as a supplement to, and should be read in conjunction with, the consolidated financial statements and the related notes included elsewhere in this report.

EXECUTIVE OVERVIEW

Business Description

ePlus and its consolidated subsidiaries provide leading IT products and services, flexible leasing solutions, and enterprise supply management 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 segments: technology and 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 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.

However, in calendar year 2011, IT spending in most categories increased, driven by the general economic recovery, the deferral of IT spending by many customers in prior years, customer interest in cloud computing, the positive return on investment that can be gained by virtualization technologies, and the reduction of manufacturer shipment delays in the supply chain. 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 year ended March 31, 2013, total revenue increased 19.1% to $983.1 million and total costs and expenses increased 17.6% to $924.4 million. We believe that our growth outpaced the overall industry due to a gain in market share as we captured additional customer spend, and focused on faster growing segments within the market, such as virtualization, collaboration, and security. In addition, we added new customers both as a result of our own organic sales and marketing efforts as well as through increased vendor referrals. Net earnings increased 49.1% to $34.8 million, as compared to the prior fiscal year. Diluted earnings per share increased 54.8% to $4.32 per share for the year ended March 31, 2013 compared to $2.79 per share for the prior year. Gross margin for product and services was 18.0% during the year ended March 31, 2013 compared to 17.8% during the year ended March 31, 2012. Our gross margin on sales of product and services increased due to an improvement in margins from the sale of third-party products, as well as increases in service revenues, which was offset by a decrease in the amount of vendor incentives earned. For the years ended March 31, 2013 and 2012, we originated lease and financing volumes of $219.5 million and $162.3 million, respectively, which increased partly due to our participating in additional vendor financing

transactions.

Cash and cash equivalents increased $18.9 million or 56.1% to $52.7 million at March 31, 2013 compared to March 31, 2012, which was partially offset by a reduction in short-term investments of $6.4 million to $1.0 million from $7.4 million as of March 31, 2012. During the year, we paid a special cash dividend of $2.50 per share, or $20.1 million, to shareholders of record as of the close of business on December 17, 2012, and repurchased 19,423 shares of our common stock for a total purchase price of $0.6 million. Our cash and short-term investments on hand, funds generated from operations, amounts available under our credit facility and the possible monetization of our investment portfolio provide sufficient liquidity for our business.

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Business Segment Overview

Technology Segment

The technology segment sells IT equipment and 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 our company, which stipulate the terms and conditions of the relationship. Some CMAs contain pricing arrangements, and most contain mutual voluntary termination clauses. Our 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 Systems and Hewlett Packard products, which represent approximately 48% and 11% of sales of product and services, respectively, for the year ended March 31, 2013 as compared to 45% and 15% of total revenues, respectively, for the year ended March 31, 2012, and 40% and 19% of total revenues, respectively, for the year ended March 31, 2011.

Included in the sales of product and services are revenues derived from performing advanced professional services that may be bundled with sales of equipment which are integral to the successful delivery of such equipment. Our 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.

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
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 Security Specialization

	Master UC Specialization
	Master Managed Services Partner
Citrix Systems, Inc.	Citrix Gold (National)
EMC	Velocity Premier Level
Hewlett Packard	HP Preferred Elite Partner (National)
IBM	Premier IBM Business Partner (National)
Lenovo	Lenovo Premium (National)
Microsoft	Microsoft Gold (National)
NetApp	NetApp STAR Partner
Oracle Gold Partner	Sun SPA Executive Partner (National)
	Sun National Strategic Data Center Authorized
VMware	National Premier Partner

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We also generate revenue in our technology segment through hosting arrangements, sales of our Internet-based business-to-business supply chain management software, agent fees received from various manufacturers, support fees, warranty reimbursements, settlement fees related to disputes or litigation and interest income. Our revenues also 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 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 from leasing primarily IT and medical equipment and the disposition of that equipment at the end of the lease. These revenues are reflected under financing revenues on our consolidated statements of operations. The finance business 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 consolidated statements of operations.

Financing revenues consist of amortization of unearned income on notes receivables, direct financing and sales-type leases, rentals due under operating leases, net gains or losses on the sales of financing receivables, and sales of equipment at the end of a lease, as well as other post-term financing revenue. The types of revenue and costs recognized by us are determined by each lease's individual classification. Each lease is classified as either 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.

We account for the transfer of financing receivables that meet the definition of financial assets and certain criteria outlined in Transfers and Servicing in the Codification, including surrender of control, as sales for financial reporting purposes. The net gain on the transfer of these financial assets is recognized in financing revenues in our consolidated statements of operations.

Our financing segment sells the equipment underlying a lease to the lessee or a third-party other than the lessee. These sales 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 consolidated statement of operations.

We also recognize revenue from events that occur after the initial sale of a financial asset and remarketing fees from our "off lease" equipment. These revenues are reflected in our consolidated statements of operations under fee and other income.

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 a sale prior to the expiration of the lease term to the lessee or to a third-party or from other post-term events.

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.

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RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In June 2011, the FASB issued ASU 2011-12, “Comprehensive Income” (ASU 2011-12), which amended existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement, statement of comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income. ASU 2011-12 requires retrospective application, and it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. We adopted this amendment on April 1, 2012 and are presenting our components of net income and other comprehensive income in two separate but consecutive financial statements.

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 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 product 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 polices.

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 and with our vendors. 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 that 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 was 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.

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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 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.

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. As part of our annual assessment, we elected to bypass the qualitative assessment and estimated the fair values of our reporting units using the best information available, including prices for similar assets and liabilities and other valuation techniques.

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.

The fair values of our reporting units significantly exceeded their respective carrying values as of October 1, 2012 and we concluded the recoverability of goodwill would not have been impacted by a 10% change in the fair values.

VENDOR CONSIDERATION. We receive payments and credits from vendors, 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. These programs can be very complex to calculate

and 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, product and services on our 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, 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 consolidated statements of operations.

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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).

The reserve for credit losses for the fiscal years ended March 31, 2013 and 2012 included a specific reserve of $2.8 million and $2.9 million, respectively, 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 and 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.

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RESULTS OF OPERATIONS

The Year Ended March 31, 2013 Compared to the Year Ended March 31, 2012

Technology Segment

The results of operations for our technology segment for the years ended March 31, 2013 and 2012 were as follows (in thousands):

	Year Ended March 31,			
	2013	2012	Change	
Sales of product and services	$ 936,228	$ 784,951	$ 151,277	19.3 %
Fee and other income	6,949	7,455	(506)	(6.8 %)
Total revenues	943,177	792,406	150,771	19.0 %
Cost of sales, product and services	767,447	645,558	121,889	18.9 %
Professional and other fees	9,638	10,283	(645)	(6.3 %)
Salaries and benefits	100,447	88,321	12,126	13.7 %
General and administrative expenses	19,028	16,627	2,401	14.4 %
Interest and financing costs	89	93	(4)	(4.3 %)
Total costs and expenses	896,649	760,882	135,767	17.8 %
Segment earnings	$ 46,528	$ 31,524	$ 15,004	47.6 %

Total revenue. Total revenues for the year ended March 31, 2013 increased by $150.8 million, or 19.0%, to $943.2 million due to increases in demand for product and services, particularly from Fortune 100 customers. We had year over year growth in our quarterly sales of product and services during the year ended March 31, 2013. We experienced sequential increases in quarterly sales of product and services during the first two quarters of 2013 and slight decreases during the third and fourth quarters. The sequential decrease in revenues over the last two quarters is primarily due to changes in customer demand. We have experienced sequential decreases in revenues between our third and fourth quarters as the IT spending cycle for many of our customers tend increase towards the end of their fiscal years. However, over the last several years, our revenues have increased on a year over year basis. The sequential and year over year change in sales of product and services is summarized below:

Quarter Ended	Sequential	Year over Year
June 30, 2012	11.7%	38.4%
September 30, 2012	6.8%	29.3%
December 31, 2012	(8.8%)	7.4%
March 31, 2013	(1.9%)	6.6%

We rely on our vendors to fulfill shipments to our customers, which have been occurring on a regular basis. Our average open orders for the years ended March 31, 2013 and 2012 were $76.8 million and $52.9 million, respectively. In addition, we had deferred revenue of $16.7 million at March 31, 2013, compared to $15.2 million at March 31, 2012.

Total costs and expenses. Total costs and expenses for the year ended March 31, 2013 increased $135.8 million or 17.8%, to $896.6 million due to increases in cost of sales, product and services, salaries and benefits and general and administrative expenses, partially offset by professional and other fees. The increase in cost of sales, product and services was consistent with the increase in sales of product and services. Our gross margin on the sale of product and services increased to 18.0% for the year ended March 31, 2013, from 17.8% in the prior year. Our gross margin increased due to an improvement in margins from the sale of product, as well as increases in service revenues, which were offset by a decrease as a percentage of sales in vendor incentives earned. The change in the amount of vendor incentives earned during the year ended March 31, 2013 resulted in a decrease of 0.1% of gross margin for product and services. There are ongoing changes to the incentive 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.

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Professional and other fees decreased $0.6 million, or 6.3%, to $9.6 million, compared to $10.3 million during the prior year. These decreases are primarily due to lower legal and other fees related to the patent infringement litigation, which were $3.3 million and $6.0 million for the years ended March 31, 2013 and 2012, respectively. These types of patent infringement cases are complex in nature, and are likely to have significant expenses associated with them. We cannot predict whether we will be successful in our claims for damages, whether any award ultimately received will exceed the costs incurred to pursue these matters, or how long it will take to bring these matters to resolution. These decreases are partially offset by increases in accounting and other professional fees of about $1.8 million.

Salaries and benefits increased $12.1 million or 13.7% to $100.4 million, compared to $88.3 million during the prior year. This increase was driven by increases in the number of employees and higher commissions. Our technology segment had 835 employees as of March 31, 2013, an increase of 58 from 777 at March 31, 2012. Most of the increase relates to sales and support personnel in order to expand our geographical presence and solutions offerings. In addition, commissions increased due to the increase in the sales of product and services during the fiscal year ended March 31, 2013.

General and administrative expenses increased $2.4 million, or 14.4%, to $19.0 million during the fiscal year ended March 31, 2013 compared to prior year, due to the higher travel and other expenses associated with the increase in sales and support personnel, and higher rent and amortization expenses related to acquisitions,.

Segment earnings. As a result of the foregoing, segment earnings increased $15.0 million, or 47.6%, to $46.5 million for the year ended March 31, 2013.

Financing Segment

The results of operations for our financing segment for the years ended March 31, 2013 and 2012 were as follows (in thousands):

	Year Ended March 31,			
	2013	2012	Change	
Financing revenue	$ 38,384	$ 30,899	$ 7,485	24.2 %
Fee and other income	1,551	2,276	(725)	(31.9 %)
Total revenues				