

EPLUS INC
Form 10-Q
August 03, 2017

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

FORM 10-Q

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from ____ to ____ .

Commission file number: 1-34167

ePlus inc.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

Edgar Filing: EPLUS INC - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer (do not check if smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

The number of shares of common stock outstanding as of July 31, 2017 was 14,167,188.

TABLE OF CONTENTS

ePlus inc. AND SUBSIDIARIES

Part I. Financial Information:

Item 1. Financial Statements

| | |
|--|----|
| <u>Unaudited Condensed Consolidated Balance Sheets as of June 30, 2017 and March 31, 2017</u> | 5 |
| <u>Unaudited Condensed Consolidated Statements of Operations for the Three Months Ended June 30, 2017 and 2016</u> | 6 |
| <u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended June 30, 2017 and 2016</u> | 7 |
| <u>Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months Ended June 30, 2017 and 2016</u> | 8 |
| <u>Unaudited Condensed Consolidated Statements of Stockholders' Equity for the Three Months Ended June 30, 2017</u> | 10 |
| <u>Notes to Unaudited Condensed Consolidated Financial Statements</u> | 11 |

| | |
|--|----|
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 24 |
|--|----|

| | |
|---|----|
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 38 |
|---|----|

| | |
|--|----|
| Item 4. <u>Controls and Procedures</u> | 38 |
|--|----|

Part II. Other Information:

| | |
|----------------------------------|----|
| Item 1. <u>Legal Proceedings</u> | 39 |
|----------------------------------|----|

| | |
|------------------------------|----|
| Item 1A. <u>Risk Factors</u> | 39 |
|------------------------------|----|

| | |
|--|----|
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 40 |
|--|----|

| | |
|--|----|
| Item 3. <u>Defaults Upon Senior Securities</u> | 40 |
|--|----|

| | |
|--|----|
| Item 4. <u>Mine Safety Disclosures</u> | 40 |
|--|----|

| | |
|----------------------------------|----|
| Item 5. <u>Other Information</u> | 40 |
|----------------------------------|----|

| | |
|-------------------------|----|
| Item 6. <u>Exhibits</u> | 41 |
|-------------------------|----|

| | |
|--|----|
| <u>Signatures & Certifications</u> | 42 |
|--|----|

Table of Contents

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain statements that are, or may be deemed to be, “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or “Exchange Act,” and are made in reliance upon the protections provided by such acts for forward-looking statements. Such statements are not based on historical fact, but are based upon numerous assumptions about future conditions that may not occur. Forward-looking statements are generally identifiable by use of forward-looking words such as “may,” “should,” “would,” “intend,” “estimate,” “will,” “potential,” “possible,” “could,” “believe,” “expect,” “intend,” “plan,” “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:

- national and international political instability fostering uncertainty and volatility in the global economy including exposure to fluctuation in foreign currency rates, and downward pressure on prices;
- significant adverse changes in, reductions in, or loss of our largest volume customer or one or more of our large volume customers, or vendors;
- exposure to changes in, interpretations of, or enforcement trends in legislation and regulatory matters;
- the creditworthiness of our customers and our ability to reserve adequately for credit losses;
- reduction of vendor incentives provided to us;
- we offer a comprehensive set of solutions — integrating information technology (IT) product sales, third-party software assurance and maintenance, our advanced professional and managed services, our proprietary software, and financing, and encounter the following challenges, risks, difficulties and uncertainties:
 - o managing a diverse product set of solutions in highly competitive markets with a number of key vendors;
 - o increasing the total number of customers utilizing integrated solutions by up-selling within our customer base and gaining new customers;
 - o adapting to meet changes in markets and competitive developments;
 - o maintaining and increasing advanced professional services by retaining highly skilled, competent, personnel and vendor certifications;
 - o increasing the total number of customers who utilize our managed services and professional services and continuing to enhance our managed services offerings to remain competitive in the marketplace;
 - o performing professional and managed services competently;
 - o maintaining our proprietary software and updating our technology infrastructure to remain competitive in the marketplace; and
 - o reliance on third parties to perform some of our service obligations;
- changes in the IT industry and/or rapid changes in product offerings, including the proliferation of the cloud, infrastructure as a service and software as a service;
- our dependency on continued innovations in hardware, software, and services offerings by our vendors and our ability to partner with them;
- future growth rates in our core businesses;
- failure to comply with public sector contracts or applicable laws;
- changes to or loss of members of our senior management team and/or failure to successfully implement succession plans;
- our dependence on key personnel to maintain certain customer relationships, and our ability to hire, train, 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 a decrease in purchases from us;
- our contracts may not be adequate to protect us, and we are subject to audit in which we may not pass, and our professional and liability insurance policies coverage may be insufficient to cover a claim;
- disruptions or a security breach in our IT systems and data and audio communication networks;

Table of Contents

our ability to secure our customers' electronic and other confidential information, and remain secure during a cyber-security attack;

our ability to raise capital, maintain or increase as needed our lines of credit with vendors or floor planning facility, or obtain debt for our financing transactions or the effect of those changes on our common stock or its holders;

our ability to realize our investment in leased equipment;

our ability to successfully perform due diligence and integrate acquired businesses;

the possibility of goodwill impairment charges in the future;

our ability to protect our intellectual property rights and successfully defend any challenges to the validity of our patents or allegations that we are infringing upon any third party patents, and the costs associated with those actions, and, when appropriate, license required technology; 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 or inaccurate costs and completion dates for our services which could affect our estimates.

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 Item 1A, "Risk Factors" and Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections contained elsewhere in this report, as well as other reports that we file with the Securities and Exchange Commission ("SEC").

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

| | As of June 30, 2017 | As of March 31, 2017 |
|--|------------------------|-------------------------|
| (in thousands, except per share data) | | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 98,244 | \$ 109,760 |
| Accounts receivable—trade, net | 276,671 | 266,029 |
| Accounts receivable—other, net | 25,665 | 24,987 |
| Inventories | 90,497 | 93,557 |
| Financing receivables—net, current | 61,372 | 51,656 |
| Deferred costs | 13,737 | 7,971 |
| Other current assets | 39,330 | 43,364 |
| Total current assets | 605,516 | 597,324 |
| Financing receivables and operating leases—net | 66,821 | 71,883 |
| Property, equipment and other assets | 11,904 | 11,956 |
| Goodwill | 55,396 | 48,397 |
| Other intangible assets—net | 15,547 | 12,160 |
| TOTAL ASSETS | \$ 755,184 | \$ 741,720 |

LIABILITIES AND STOCKHOLDERS' EQUITY**LIABILITIES**

| | | |
|--------------------------------------|----------------|----------------|
| Current liabilities: | | |
| Accounts payable | \$ 111,955 | \$ 113,518 |
| Accounts payable—floor plan | 138,932 | 132,612 |
| Salaries and commissions payable | 16,067 | 18,878 |
| Deferred revenue | 62,679 | 65,312 |
| Recourse notes payable—current | 799 | 908 |
| Non-recourse notes payable—current | 28,788 | 26,085 |
| Other current liabilities | 22,323 | 19,179 |
| Total current liabilities | 381,543 | 376,492 |
| Non-recourse notes payable—long term | 6,908 | 10,431 |
| Deferred tax liability—net | 1,794 | 1,799 |
| Other liabilities | 7,909 | 7,080 |
| TOTAL LIABILITIES | 398,154 | 395,802 |

COMMITMENTS AND CONTINGENCIES (Note 8)**STOCKHOLDERS' EQUITY**

Edgar Filing: EPLUS INC - Form 10-Q

| | | |
|---|------------|------------|
| Preferred stock, \$.01 per share par value; 2,000 shares authorized; none outstanding | - | - |
| Common stock, \$.01 per share par value; 25,000 shares authorized; 14,170 outstanding at June 30, 2017 and 14,161 outstanding at March 31, 2017 | 142 | 142 |
| Additional paid-in capital | 125,043 | 123,536 |
| Treasury stock, at cost | (4,130) | - |
| Retained earnings | 236,246 | 222,823 |
| Accumulated other comprehensive income—foreign currency translation adjustment | (271) | (583) |
| Total Stockholders' Equity | 357,030 | 345,918 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 755,184 | \$ 741,720 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three Months Ended | |
|--|---------------------------------------|------------|
| | June 30, | |
| | 2017 | 2016 |
| | (in thousands, except per share data) | |
| Net sales | \$ 367,157 | \$ 298,503 |
| Cost of sales | 289,564 | 230,839 |
| Gross profit | 77,593 | 67,664 |
| Selling, general, and administrative expenses | 54,664 | 48,054 |
| Depreciation and amortization | 2,063 | 1,775 |
| Interest and financing costs | 359 | 349 |
| Operating expenses | 57,086 | 50,178 |
| Operating income | 20,507 | 17,486 |
| Other income | 271 | - |
| Earnings before tax | 20,778 | 17,486 |
| Provision for income taxes | 7,355 | 6,815 |
| Net earnings | \$ 13,423 | \$ 10,671 |
| Net earnings per common share—basic | \$ 0.97 | \$ 0.76 |
| Net earnings per common share—diluted | \$ 0.96 | \$ 0.75 |
| Weighted average common shares outstanding—basic | 13,806 | 14,066 |
| Weighted average common shares outstanding—diluted | 14,019 | 14,216 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Three Months Ended June 30, | |
|--|--------------------------------|-----------|
| | 2017 | 2016 |
| | (amounts in thousands) | |
| NET EARNINGS | \$ 13,423 | \$ 10,671 |
| OTHER COMPREHENSIVE INCOME, NET OF TAX: | | |
| Foreign currency translation adjustments | 312 | (217) |
| Other comprehensive income (loss) | 312 | (217) |
| TOTAL COMPREHENSIVE INCOME | \$ 13,735 | \$ 10,454 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three Months Ended June 30, | |
|---|-----------------------------|--------------|
| | 2017 | 2016 |
| | (in thousands) | |
| Cash Flows From Operating Activities: | | |
| Net earnings | \$ 13,423 | \$ 10,671 |
| Adjustments to reconcile net earnings to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 3,225 | 2,775 |
| Reserve for credit losses, inventory obsolescence and sales returns | 283 | 191 |
| Share-based compensation expense | 1,507 | 1,458 |
| Payments from lessees directly to lenders—operating leases | (1,014) | (1,884) |
| Gain on disposal of property, equipment and operating lease equipment | (1,112) | (889) |
| Gain on sale of financing receivables | (2,292) | (1,455) |
| Other | (2) | 109 |
| Changes in: | | |
| Accounts receivable—trade | (10,143) | (24,283) |
| Accounts receivable—other | (3,621) | 4,378 |
| Inventories | 3,181 | (13,188) |
| Financing receivables—net | (3,871) | 244 |
| Deferred costs, other intangible assets and other assets | (5,994) | 4,115 |
| Accounts payable | 7,630 | 3,827 |
| Salaries and commissions payable, deferred revenue and other liabilities | (4,650) | 1,212 |
| Net cash used in operating activities | \$ (3,450) | \$ (12,719) |
| Cash Flows From Investing Activities: | | |
| Proceeds from sale of property, equipment and operating lease equipment | \$ 980 | \$ 2,100 |
| Purchases of property, equipment and operating lease equipment | (1,871) | (890) |
| Purchases of assets to be leased or financed | (3,017) | (6,052) |
| Issuance of financing receivables | (51,024) | (32,100) |
| Repayments of financing receivables | 20,630 | 5,856 |
| Proceeds from sale of financing receivables | 28,379 | 13,576 |
| Cash used in acquisitions, net of cash acquired | (7,913) | - |
| Net cash used in investing activities | \$ (13,836) | \$ (17,510) |

Table of Contents

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - continued

| | Three Months Ended June 30, | |
|--|-----------------------------|--------------|
| | 2017 | 2016 |
| | (in thousands) | |
| Cash Flows From Financing Activities: | | |
| Borrowings of non-recourse and recourse notes payable | \$ 4,700 | \$ 11,979 |
| Repayments of non-recourse and recourse notes payable | (467) | (2) |
| Repurchase of common stock | (4,130) | (20,640) |
| Repayments of financing of acquisitions | (604) | - |
| Net borrowings (repayments) on floor plan facility | 6,320 | 22,616 |
| Net cash provided by financing activities | 5,819 | 13,953 |
| Effect of exchange rate changes on cash | (49) | 317 |
| Net Decrease in Cash and Cash Equivalents | (11,516) | (15,959) |
| Cash and Cash Equivalents, Beginning of Period | 109,760 | 94,766 |
| Cash and Cash Equivalents, End of Period | \$ 98,244 | \$ 78,807 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid for interest | \$ 27 | \$ 19 |
| Cash paid for income taxes | \$ 2,960 | \$ 1,367 |
| Schedule of Non-Cash Investing and Financing Activities: | | |
| Proceeds from sale of property, equipment, and operating lease equipment | \$ 1,673 | \$ 161 |
| Purchase of property, equipment, and operating lease equipment | \$ 26 | \$ (1,873) |
| Purchase of assets to be leased or financed | \$ (3,909) | \$ (9,247) |
| Issuance of financing receivables | \$ (56,791) | \$ (39,779) |
| Repayment of financing receivables | \$ 4,058 | \$ 7,114 |
| Proceeds from sale of financing receivables | \$ 52,023 | \$ 31,901 |
| Financing of acquisitions | \$ 2,072 | \$ - |
| Borrowing of non-recourse and recourse notes payable | \$ 7,605 | \$ 12,210 |
| Repayments of non-recourse and recourse notes payable | \$ (5,958) | \$ (9,616) |
| Vesting of share-based compensation | \$ 10,458 | \$ 7,280 |
| Repurchase of common stock included in accounts payable | \$ - | \$ (1,459) |

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | Common Stock | | Additional | Treasury | Retained | Accumulated | |
|---|--------------|-----------|-----------------|------------|-----------|--------------|---------------------|
| | Shares | Par Value | Paid-In Capital | Stock | Earnings | Other Income | Comprehensive Total |
| Balance, April 1, 2017 | 14,161 | \$ 142 | \$ 123,536 | \$- | \$222,823 | \$ (583) |) \$345,918 |
| Issuance of restricted stock awards | 64 | - | - | - | - | - | - |
| Share-based compensation | - | - | 1,507 | - | - | - | 1,507 |
| Repurchase of common stock | (55) | - | - | (4,130) | - | - | (4,130) |
| Net earnings | - | - | - | - | 13,423 | - | 13,423 |
| Foreign currency translation adjustment | - | - | - | - | - | 312 | 312 |
| Balance, June 30, 2017 | 14,170 | \$ 142 | \$ 125,043 | \$(4,130) | \$236,246 | \$ (271) |) \$357,030 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ePlus inc. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS — Our company was founded in 1990 and is a Delaware corporation. ePlus inc. is sometimes referred to in this Quarterly Report on Form 10-Q as "we," "our," "us," "ourselves," or "ePlus." ePlus inc. is a holding company that through its subsidiaries provides information technology solutions which enable organizations to optimize their IT environment and supply chain processes. We also provide consulting, professional and managed services and complete lifecycle management services including flexible financing solutions. We focus on middle market and large enterprises in North America and the United Kingdom.

BASIS OF PRESENTATION — The unaudited condensed consolidated financial statements include the accounts of ePlus inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The accounts of businesses acquired are included in the unaudited condensed consolidated financial statements from the dates of acquisition.

INTERIM FINANCIAL STATEMENTS — The unaudited condensed consolidated financial statements for the three months ended June 30, 2017 and 2016 were prepared by us, without audit, and include all normal and recurring adjustments that, in the opinion of management, are necessary for a fair presentation of our financial position, results of operations, changes in comprehensive income and cash flows for such periods. Operating results for the three months ended June 30, 2017 and 2016 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending March 31, 2018 or any other future period. These unaudited condensed consolidated financial statements do not include all disclosures required by the accounting principles generally accepted in the United States ("US GAAP") for annual financial statements. Our audited consolidated financial statements are contained in our annual report on Form 10-K for the year ended March 31, 2017 ("2017 Annual Report"), which should be read in conjunction with these interim condensed consolidated financial statements.

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

The notes to the consolidated financial statements contained in the 2017 Financial Statements include additional discussion of the significant accounting policies and estimates used in the preparation of our consolidated financial statements. There have been no material changes to our significant accounting policies and estimates during the three months ended June 30, 2017.

STOCK SPLIT — On March 31, 2017, we completed a two-for-one stock split in the form of a stock dividend. References made to outstanding shares or per share amounts in the accompanying financial statements and disclosures have been retroactively adjusted for this stock split. The number of authorized shares reflected on the consolidated balance sheets was not affected by the stock split.

CONCENTRATIONS OF RISK — A substantial portion of our sales of product and services are from sales of Cisco Systems, Hewlett Packard Enterprise ("HPE") and HP, Inc. (Hewlett Packard companies), and NetApp products, which represented approximately 49%, 8% and 4%, respectively, for the three months ended June 30, 2017. Sales of Cisco

Systems, Hewlett Packard companies, and NetApp represented approximately 52%, 6%, and 5%, respectively, for the three months ended June 30, 2016. Any changes in our vendors' ability to provide products or incentive programs could have a material adverse effect on our business, results of operations and financial condition.

Table of Contents

2. RECENT ACCOUNTING PRONOUNCEMENTS

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED — In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which, along with amendments issued in 2015 and 2016, will replace most existing revenue recognition guidance under GAAP and eliminate industry specific guidance. The core principle of the new guidance is that an entity should recognize revenue for the transfer of goods and services equal to an amount it expects to be entitled to receive for those goods and services. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, to defer the effective date of ASU 2014-09 by one year. Including the one-year deferral, these updates become effective for us in our quarter ending June 30, 2018, and early adoption is permitted for us in our quarter ending June 30, 2017. The new guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method).

We have established a cross-functional implementation team and utilized a bottom-up approach to analyze the impact of the standard on our arrangements by reviewing the current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to our revenue contracts. The implementation team has reported the findings and progress of the project to management and the Audit Committee on a regular basis.

We will adopt the guidance in our quarter ending June 30, 2018. We currently prefer to adopt the standard using the full retrospective method; however, our ability to do so is dependent on many factors, including the completion of our analysis of information necessary to recast prior period financial statements. Based on these and other factors, we may decide to use the cumulative catch-up transition method.

Our analysis and evaluation of the new standard will continue through its effective date in the first quarter of 2018. A substantial amount of work remains to be completed due to the complexity of the new standard, the application of judgment and the requirement for the use of estimates in applying the new standard, as well as the volume of our customer portfolio and the related terms and conditions of our contracts that must be reviewed.

In August 2016, the FASB issued ASU 2016-02, Leases, which will supersede the current US GAAP on this topic. The core principle of this update is that a lessee should recognize the assets and liabilities that arise from leases. This update requires adoption under the modified retrospective approach and becomes effective for us in our quarter ending June 30, 2019. Early adoption is permitted. We are currently evaluating the impact of this update on our financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this update replace the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This update requires adoption under a modified retrospective approach and becomes effective for us in our quarter ending June 30, 2020. Early adoption is permitted beginning in our quarter ending June 30, 2019. We are currently evaluating the impact of this update on our financial statements.

3. FINANCING RECEIVABLES AND OPERATING LEASES

Our financing receivables and operating leases consist of assets that we finance for our customers, which we manage as a portfolio of investments. Equipment financed for our customers is accounted for as investments in direct financing, sales-type or operating leases in accordance with Accounting Standards Codification (“ASC”) Topic 840, Leases. We also finance third-party software, maintenance, and services for our customers, which are classified as

notes receivables. Our notes receivables are interest bearing and are often due over a period of time that corresponds with the terms of the leased products.

Table of Contents

FINANCING RECEIVABLES—NET

Our financing receivables, net consist of the following (in thousands):

| | Notes Receivables | Lease-Related Receivables | Total Financing Receivables |
|---|----------------------|------------------------------|--------------------------------|
| June 30, 2017 | | | |
| Minimum payments | \$ 51,091 | \$ 57,155 | \$ 108,246 |
| Estimated unguaranteed residual value (1) | - | 17,972 | 17,972 |
| Initial direct costs, net of amortization (2) | 452 | 389 | 841 |
| Unearned income | - | (5,988) | (5,988) |
| Reserve for credit losses (3) | (480) | (716) | (1,196) |
| Total, net | \$ 51,063 | \$ 68,812 | \$ 119,875 |
| Reported as: | | | |
| Current | \$ 33,586 | \$ 27,786 | \$ 61,372 |
| Long-term | 17,477 | 41,026 | 58,503 |
| Total, net | \$ 51,063 | \$ 68,812 | \$ 119,875 |

(1) Includes estimated unguaranteed residual values of \$12,724 thousand for direct financing leases, which have been sold and accounted for as sales.

(2) Initial direct costs are shown net of amortization of \$371 thousand.

(3) For details on reserve for credit losses, refer to Note 5, “Reserves for Credit Losses.”

| | Notes Receivables | Lease-Related Receivables | Total Financing Receivables |
|---|----------------------|------------------------------|--------------------------------|
| March 31, 2017 | | | |
| Minimum payments | \$ 48,524 | \$ 57,872 | \$ 106,396 |
| Estimated unguaranteed residual value (1) | - | 18,273 | 18,273 |
| Initial direct costs, net of amortization (2) | 279 | 341 | 620 |
| Unearned income | - | (5,913) | (5,913) |
| Reserve for credit losses (3) | (3,434) | (679) | (4,113) |
| Total, net | \$ 45,369 | \$ 69,894 | \$ 115,263 |
| Reported as: | | | |
| Current | \$ 23,780 | \$ 27,876 | \$ 51,656 |
| Long-term | 21,589 | 42,018 | 63,607 |
| Total, net | \$ 45,369 | \$ 69,894 | \$ 115,263 |

(1) Includes estimated unguaranteed residual values of \$12,677 thousand for direct financing leases which have been sold and accounted for as sales.

(2) Initial direct costs are shown net of amortization of \$510 thousand.

(3) For details on reserve for credit losses, refer to Note 5, “Reserves for Credit Losses.”

OPERATING LEASES—NET

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

| | June 30, 2017 | March 31, 2017 |
|---|------------------|-------------------|
| Cost of equipment under operating leases | \$ 16,836 | \$ 16,725 |
| Accumulated depreciation | (8,518) | (8,449) |
| Investment in operating lease equipment—net (1) | \$ 8,318 | \$ 8,276 |

(1) These totals include estimated unguaranteed residual values of \$2,075 thousand and \$1,117 thousand as of June 30, 2017 and March 31, 2017, respectively.

13

Table of Contents

TRANSFERS OF FINANCIAL ASSETS

We enter into arrangements to transfer the contractual payments due under financing receivables and operating lease agreements, which are accounted for as sales or secured borrowings in accordance with Codification Topic 860, Transfers and Servicing. For transfers accounted for as a secured borrowing, the corresponding investments serve as collateral for non-recourse notes payable. As of June 30, 2017 and March 31, 2017, we had financing receivables of \$40.1 million and \$33.1 million, respectively, and operating leases of \$7.1 million and \$6.6 million, respectively, which were collateral for non-recourse notes payable. See Note 7, "Notes Payable and Credit Facility."

For transfers accounted for as sales, we derecognize the carrying value of the asset transferred and recognize a net gain or loss on the sale, which are presented within net sales in the consolidated statement of operations. During the three months ended June 30, 2017 and 2016, we recognized net gains of \$2.3 million and \$1.5 million, respectively, and total proceeds from these sales were \$85.8 million and \$54.2 million, respectively.

For certain assignments of financial assets, we retain a servicing obligation. For assignments accounted for as sales, we allocate a portion of the proceeds to deferred revenues, which is recognized as we perform the services. As of both June 30, 2017 and March 31, 2017, we had deferred revenue of \$0.5 million for servicing. In a limited number of such sales, we indemnified the assignee in the event that the lessee elected to early terminate the lease. As of June 30, 2017, our maximum potential future payments related to such guarantees is \$0.8 million. We believe the possibility of making any payments to be remote.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

GOODWILL

The following table summarizes the changes in the carrying amount of goodwill for the three months ended June 30, 2017, (in thousands):

| | Three Months Ended June 30, 2017 | | |
|-------------------------------|----------------------------------|---|---------------------------|
| | Goodwill | Accumulated Amortization / Impairment Loss | Net Carrying Amount |
| Balance as of March 31, 2017 | \$ 57,070 | \$ (8,673) | \$ 48,397 |
| Acquisitions | 6,925 | - | 6,925 |
| Foreign currency translations | 74 | - | 74 |
| Balance as of June 30, 2017 | \$ 64,069 | \$ (8,673) | \$ 55,396 |

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets that are individually identified and separately recognized in business combinations. All of our goodwill as of June 30, 2017 and March 31, 2017 is related to our technology reportable segment, which we also determined to be one reporting unit.

See Note 15, "Business Combinations" for additional information regarding acquisitions.

We test goodwill for impairment on an annual basis, as of the first day of our third fiscal quarter, and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying value.

Table of Contents

OTHER INTANGIBLE ASSETS

Our other intangible assets consist of the following at June 30, 2017 and March 31, 2017 (in thousands):

| | June 30, 2017 | | | March 31, 2017 | | |
|--|-----------------------|--|---------------------|-----------------------|--|---------------------|
| | Gross Carrying Amount | Accumulated Amortization / Impairment Loss | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization / Impairment Loss | Net Carrying Amount |
| Customer relationships & other intangibles | \$27,776 | \$ (13,701) | \$ 14,075 | \$23,373 | \$ (12,553) | \$ 10,820 |
| Capitalized software development | 3,884 | (2,412) | 1,472 | 3,649 | (2,310) | 1,339 |
| Total | \$31,660 | \$ (16,113) | \$ 15,547 | \$27,022 | \$ (14,863) | \$ 12,159 |

Customer relationships and capitalized software development costs are amortized over an estimated useful life, which is generally between 3 to 8 years. Trade names and trademarks are amortized over an estimated useful life of 10 years.

Customer relationships and other intangibles increased due to business acquisitions by \$4.4 million, of which \$2.4 million is internally developed processes, \$1.9 million is customer relationships, and \$0.1 million due to foreign exchange translation. Total amortization expense for other intangible assets was \$1.1 million and \$1.1 million for the three months ended June 30, 2017 and 2016, respectively.

5. RESERVES FOR CREDIT LOSSES

Activity in our reserves for credit losses for the three months ended June 30, 2017 and 2016 were as follows (in thousands):

| | Accounts Receivable | Notes Receivable | Lease-Related Receivables | Total |
|-----------------------------|---------------------|------------------|---------------------------|---------|
| Balance April 1, 2017 | \$ 1,279 | \$ 3,434 | \$ 679 | \$5,392 |
| Provision for credit losses | (1) | 67 | 202 | 268 |
| Write-offs and other | - | (3,021) | (165) | (3,186) |
| Balance June 30, 2017 | \$ 1,278 | \$ 480 | \$ 716 | \$2,474 |

| | Accounts Receivable | Notes Receivable | Lease-Related Receivables | Total |
|-----------------------------|---------------------|------------------|---------------------------|---------|
| Balance April 1, 2016 | \$ 1,127 | \$ 3,381 | \$ 685 | \$5,193 |
| Provision for credit losses | 15 | 71 | 46 | 132 |
| Balance June 30, 2016 | \$ 1,142 | \$ 3,452 | \$ 731 | \$5,325 |

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

| | June 30, 2017 | | March 31, 2017 | |
|---|------------------|---------------------------|------------------|---------------------------|
| | Notes Receivable | Lease-Related Receivables | Notes Receivable | Lease-Related Receivables |
| Reserves for credit losses: | | | | |
| Ending balance: collectively evaluated for impairment | \$413 | \$ 709 | \$348 | \$ 556 |
| Ending balance: individually evaluated for impairment | 67 | 7 | 3,086 | 123 |

Edgar Filing: EPLUS INC - Form 10-Q

| | | | | |
|---|----------|-----------|----------|-----------|
| Ending balance | \$480 | \$ 716 | \$3,434 | \$ 679 |
| Minimum payments: | | | | |
| Ending balance: collectively evaluated for impairment | \$51,024 | \$ 57,148 | \$45,438 | \$ 57,730 |
| Ending balance: individually evaluated for impairment | 67 | 7 | 3,086 | 142 |
| Ending balance | \$51,091 | \$ 57,155 | \$48,524 | \$ 57,872 |

15

Edgar Filing: EPLUS INC - Form 10-Q

Table of Contents

We place receivables on non-accrual status when events, such as a customer's declaring bankruptcy, occur that indicate a receivable will not be collectable. We charge off uncollectable financing receivables when we stop pursuing collection. As March 31, 2017, we had a balance outstanding as of \$3.2 million for a customer in bankruptcy which was fully reserved and on a non-accrual status. We wrote off this balance against the reserve for credit losses during the quarter ended June 30, 2017, after the bankruptcy case was substantially complete.

The age of the recorded minimum lease payments and net credit exposure associated with our investment in direct financing and sales-type leases that are past due disaggregated based on our internally assigned credit quality rating ("CQR") were as follows as of June 30, 2017 and March 31, 2017 (in thousands):

| | 31-60 Days Past Due | 61-90 Days Past Due | Greater than 90 Days Past Due | Total Past Due | Current | Unbilled Minimum Lease Payments | Total Minimum Lease Payments | Unearned Income | Non- Recourse Notes Payable | Net Credit Exposure |
|---------------|------------------------------|------------------------------|---|----------------------|---------|--|---------------------------------------|--------------------|--------------------------------------|---------------------------|
| June 30, 2017 | | | | | | | | | | |
| High CQR | \$ 116 | \$ 123 | \$ 139 | \$ 378 | \$ 476 | \$ 32,274 | \$ 33,128 | \$ (2,560) | \$ (10,265) | \$ 20,303 |
| Average CQR | 27 | 21 | 113 | 161 | 131 | 23,728 | 24,020 | (1,518) | (10,624) | 11,878 |
| Low CQR | - | - | - | - | 7 | - | 7 | - | - | 7 |
| Total | \$ 143 | \$ 144 | \$ 252 | \$ 539 | \$ 614 | \$ 56,002 | \$ 57,155 | \$ (4,078) | \$ (20,889) | \$ 32,188 |

March 31, 2017

| | | | | | | | | | | |
|-------------|--------|--------|--------|----------|--------|-----------|-----------|-------------|--------------|-----------|
| High CQR | \$ 379 | \$ 224 | \$ 230 | \$ 833 | \$ 406 | \$ 32,532 | \$ 33,771 | \$ (2,362) | \$ (12,924) | \$ 18,485 |
| Average CQR | 113 | 20 | 113 | 246 | 91 | 23,622 | 23,959 | (1,556) | (13,353) | 9,050 |
| Low CQR | - | - | 142 | 142 | - | - | 142 | (19) | - | 123 |
| Total | \$ 492 | \$ 244 | \$ 485 | \$ 1,221 | \$ 497 | \$ 56,154 | \$ 57,872 | \$ (3,937) | \$ (26,277) | \$ 27,658 |

The age of the recorded notes receivable balance disaggregated based on our internally assigned CQR were as follows as June 30, 2017 and March 31, 2017 (in thousands):

| | 31-60 Days Past Due | 61-90 Days Past Due | Greater than 90 Days Past Due | Total Past Due | Current | Unbilled Notes Receivable | Total Notes Receivable | Non- Recourse Notes Payable | Net Credit Exposure |
|---------------|------------------------------|------------------------------|---|----------------------|----------|---------------------------------|------------------------------|--------------------------------------|---------------------------|
| June 30, 2017 | | | | | | | | | |
| High CQR | \$ 102 | \$ 97 | \$ - | \$ 199 | \$ 871 | \$ 38,392 | \$ 39,462 | \$ (16,690) | \$ 22,782 |
| Average CQR | 344 | - | - | 344 | 248 | 10,970 | 11,562 | (4,437) | 7,125 |
| Low CQR | - | - | 67 | 67 | - | - | 67 | - | 67 |
| Total | \$ 446 | \$ 97 | \$ 67 | \$ 610 | \$ 1,119 | \$ 49,362 | \$ 51,091 | \$ (21,117) | \$ 29,974 |

March 31, 2017

| | | | | | | | | | |
|-------------|--------|--------|--------|----------|----------|-----------|-----------|--------------|-----------|
| High CQR | \$ 183 | \$ 663 | \$ 755 | \$ 1,601 | \$ 1,165 | \$ 23,359 | \$ 26,125 | \$ (12,003) | \$ 14,122 |
| Average CQR | 28 | 5 | - | 33 | 555 | 18,725 | 19,313 | (13,732) | 5,581 |
| Low CQR | - | - | 3,086 | 3,086 | - | - | 3,086 | - | 3,086 |

Edgar Filing: EPLUS INC - Form 10-Q

| | | | | | | | | | |
|-------|--------|--------|----------|----------|----------|-----------|-----------|------------|-----------|
| Total | \$ 211 | \$ 668 | \$ 3,841 | \$ 4,720 | \$ 1,720 | \$ 42,084 | \$ 48,524 | \$(25,735) | \$ 22,789 |
|-------|--------|--------|----------|----------|----------|-----------|-----------|------------|-----------|

We estimate losses on our net credit exposure to be between 0% - 5% for customers with highest CQR, as these customers are investment grade or the equivalent of investment grade. We estimate losses on our net credit exposure to be between 2% - 15% for customers with average CQR, and between 15% - 100% for customers with low CQR, which includes customers in bankruptcy.

16

Table of Contents

6. PROPERTY, EQUIPMENT, OTHER ASSETS AND LIABILITIES

Our property, equipment, other assets and liabilities consist of the following (in thousands):

| | June 30, 2017 | March 31, 2017 |
|---------------------------------|------------------|-------------------|
| <u>Other current assets:</u> | | |
| Deposits & funds held in escrow | \$34,861 | \$39,161 |
| Prepaid assets | 3,609 | 3,388 |
| Other | 860 | 815 |
| Total other current assets | \$39,330 | \$43,364 |

Property, equipment and other assets

| | June 30, 2017 | March 31, 2017 |
|--------------------------------|------------------|-------------------|
| Property and equipment, net | \$6,513 | \$6,690 |
| Deferred costs | 4,123 | 3,536 |
| Other | 1,268 | 1,730 |
| Total other assets - long term | \$11,904 | \$11,956 |

| | June 30, 2017 | March 31, 2017 |
|-----------------------------------|------------------|-------------------|
| <u>Other current liabilities:</u> | | |
| Accrued expenses | \$7,132 | \$7,450 |
| Accrued income taxes payable | 6,171 | 1,761 |
| Other | 9,020 | 9,968 |
| Total other current liabilities | \$22,323 | \$19,179 |

Other liabilities:

| | June 30, 2017 | March 31, 2017 |
|-------------------------------------|------------------|-------------------|
| Deferred revenue | \$5,413 | \$4,704 |
| Other | 2,496 | 2,376 |
| Total other liabilities - long term | \$7,909 | \$7,080 |

As of June 30, 2017 and March 31, 2017 we had customer deposits and funds held in escrow of \$34.9 million and \$39.2 million, respectively. These balances relate to financial assets that were sold to third-party banks. In conjunction with those sales, a portion of the proceeds were placed in escrow and will be released to us upon payment of outstanding invoices related to the underlying financing arrangements that were sold.

7. NOTES PAYABLE AND CREDIT FACILITY

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

| | June 30, 2017 | March 31, 2017 |
|--|------------------|-------------------|
| Recourse notes payable with interest rates ranging from 3.20% and 4.13% at June 30, 2017 and March 31, 2017. | | |
| Current | \$799 | \$908 |

Non-recourse notes payable secured by financing receivables and investments in operating leases with interest rates ranging from 2.0% to 8.45% at June 30, 2017 and ranging from 2.0% to 7.75% as of March 31, 2017.

Edgar Filing: EPLUS INC - Form 10-Q

| | | |
|----------------------------------|----------|-----------|
| Current | \$28,788 | \$ 26,085 |
| Long-term | 6,908 | 10,431 |
| Total non-recourse notes payable | \$35,696 | \$ 36,516 |

17

Table of Contents

Principal and interest payments on non-recourse notes payable are generally due monthly in amounts that are approximately equal to the total payments due from the customer under the leases or notes receivable that collateralize the notes payable. The weighted average interest rate for our non-recourse notes payable was 3.64% and 3.73%, as of June 30, 2017 and March 31, 2017, respectively. The weighted average interest rate for our recourse notes payable was 3.35% and 3.45%, as of June 30, 2017 and March 31, 2017, respectively. Under recourse financing, in the event of a default by a customer, the lender has recourse to the customer, the assets serving as collateral, and us. Under non-recourse financing, in the event of a default by a customer, the lender generally only has recourse against the customer, and the assets serving as collateral, but not against us.

Our technology segment, through our subsidiary ePlus Technology, inc., finances its operations with funds generated from operations, and with a credit facility with Wells Fargo Commercial Distribution Finance, LLC or (“WFCDF”). This facility provides short-term capital for our technology segment. There are two components of the WFCDF credit facility: (1) a floor plan component, and (2) an accounts receivable component. Under the floor plan component, we had outstanding balances of \$138.9 million and \$132.6 million as of June 30, 2017 and March 31, 2017, respectively. Under the accounts receivable component, we had no outstanding balances as of June 30, 2017 and March 31, 2017.

As of June 30, 2017, the facility agreement had an aggregate limit of the two components of \$250 million, and the accounts receivable component had a sub-limit of \$30 million, which bears interest assessed at a rate of the One Month LIBOR plus two and one half percent.

The credit facility has full recourse to ePlus Technology, inc. and is secured by a blanket lien against all its assets, such as receivables and inventory. Availability under the facility may be limited by the asset value of equipment we purchase or accounts receivable, and may be further limited by certain covenants and terms and conditions of the facility. These covenants include but are not limited to a minimum excess availability of the facility and minimum earnings before interest, taxes, depreciation and amortization (“EBITDA”) of ePlus Technology, inc. We were in compliance with these covenants as of June 30, 2017. In addition, the facility restricts the ability of ePlus Technology, inc. to transfer funds to its affiliates in the form of dividends, loans or advances with certain exceptions for dividends to ePlus inc. The facility also requires that financial statements of ePlus Technology, inc. be provided within 45 days of each quarter and 90 days of each fiscal year end and also includes that other operational reports be provided on a regular basis. Either party may terminate with 90 days’ advance notice. We are not, and do not believe that we are reasonably likely to be, in breach of the WFCDF credit facility. In addition, we do not believe that the covenants of the WFCDF credit facility materially limit our ability to undertake financing. In this regard, the covenants apply only to our subsidiary, ePlus Technology, inc. This credit facility is secured by the assets of only ePlus Technology, inc. and the guaranty as described below.

The facility provided by WFCDF requires a guaranty of \$10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its annual audited financial statements by certain dates. We have delivered the annual audited financial statements for the year ended March 31, 2017, as required. The loss of the WFCDF credit facility could have a material adverse effect on our future results as we currently rely on this facility and its components for daily working capital and liquidity for our technology segment and as an operational function of our accounts payable process.

On July 27, 2017, we executed an amendment to the WFCDF credit facility which temporarily increases the aggregate limit of the two components from \$250.0 million to \$325.0 million from the date of the agreement through October 31, 2017, and provides us an election beginning July 1 in each subsequent year to similarly temporarily increase the aggregate limit of the two components to \$325.0 million ending the earlier of 90 days following the date of election and October 31 of that same year.

Fair Value

As of June 30, 2017 and March 31, 2017, the fair value of our long-term recourse and non-recourse notes payable approximated their carrying value.

8.COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We are not currently a party to any legal proceedings with loss contingencies that are expected to be material. From time to time, we may be a plaintiff or a defendant in legal actions arising from our normal business activities, none of which has had a material effect on our business, results of operations or financial condition. Legal proceedings which may arise in the ordinary course of business include preference payment claims asserted in customer bankruptcy proceedings, tax audits, 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, claims related to alleged violations of laws and regulations, and claims relating to alleged security or privacy breaches. We attempt to ameliorate the effect of potential litigation through insurance coverage and contractual protections such as rights to indemnifications and limitations of liability. 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, however, litigation is inherently unpredictable. Therefore, judgments could be rendered or settlements entered that could adversely affect our results of operations or cash flows in a particular period. We provide for costs related to contingencies when a loss is probable and the amount is reasonably determinable.

Table of Contents

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net earnings available to common shareholders by the basic weighted average number of shares of common stock outstanding during each period. Diluted earnings per share is calculated by dividing net earnings available to common shareholders by the basic weighted average number of shares of common stock outstanding plus common stock equivalents during each period.

The following table provides a reconciliation of the numerators and denominators used to calculate basic and diluted net income per common share as disclosed on our consolidated statements of operations for the three months ended June 30, 2017 and 2016 (in thousands, except per share data).

| | Three Months Ended June 30, | |
|--|--------------------------------|-----------|
| | 2017 | 2016 |
| Net earnings attributable to common shareholders - basic and diluted | \$ 13,423 | \$ 10,671 |
| <u>Basic and diluted common shares outstanding:</u> | | |
| Weighted average common shares outstanding — basic | 13,806 | 14,066 |
| Effect of dilutive shares | 213 | 150 |
| Weighted average shares common outstanding — diluted | 14,019 | 14,216 |
| Earnings per common share - basic | \$ 0.97 | \$ 0.76 |
| Earnings per common share - diluted | \$ 0.96 | \$ 0.75 |

10. STOCKHOLDERS' EQUITY

Share Repurchase Plan

On August 18, 2016, our board of directors authorized the repurchase up to 500,000 shares of its outstanding common stock over a 12-month period beginning on August 19, 2016 through August 18, 2017. As a result of the two-for-one stock split on March 31, 2017, as described in Note 1 "Organization and Summary of Significant Accounting Policies", the number of shares was increased to 1,000,000. The plan authorized purchases to be made from time to time in the open market, or in privately negotiated transactions, subject to availability. Any repurchased shares will have the status of treasury shares and may be used, when needed, for general corporate purposes.

During the three months ended June 30, 2017, we did not purchase any shares of our outstanding common stock under the share repurchase plan; however, we purchased 54,546 shares of common stock at a value of \$4.1 million to satisfy tax withholding obligations relating to the vesting of employees' restricted stock.

During the three months ended June 30, 2016, we purchased 453,584 shares of our outstanding common stock at an average cost of \$40.60 per share for a total purchase price of \$18.4 million under the share repurchase plan. We also purchased 59,472 shares of common stock at a value of \$2.6 million to satisfy tax withholding obligations relating to the vesting of employees' restricted stock.

11. SHARE-BASED COMPENSATION

Share-Based Plans

As of June 30, 2017, we had share-based awards outstanding under the following plans: (1) the 2008 Non-Employee Director Long-Term Incentive Plan ("2008 Director LTIP"), and (2) the 2012 Employee Long-Term Incentive Plan ("2012 Employee LTIP"). Both of the share-based plans define fair market value as the previous trading day's closing price when the grant date falls on a date the stock was not traded.

Table of Contents

Restricted Stock Activity

For the three months ended June 30, 2017, we granted 282 restricted shares under the 2008 Director LTIP, and 66,530 restricted shares under the 2012 Employee LTIP. For the three months ended June 30, 2016, we granted 460 restricted shares under the 2008 Director LTIP, and 114,538 restricted shares under the 2012 Employee LTIP. A summary of the restricted shares is as follows:

| | Number of Shares | Weighted Average Grant- date Fair Value |
|--------------------------|---------------------|---|
| Nonvested April 1, 2017 | 371,689 | \$ 40.45 |
| Granted | 66,812 | \$ 79.64 |
| Vested | (137,932) | \$ 38.08 |
| Forfeited | (3,084) | \$ 38.34 |
| Nonvested March 31, 2017 | 297,485 | \$ 50.38 |

Upon each vesting period of the restricted stock awards, employees are subject to minimum tax withholding obligations. Under the 2012 Employee LTIP, we may purchase a sufficient number of shares due to the participant to satisfy their minimum tax withholding on employee stock awards. For the three months ended June 30, 2017, the Company had withheld 54,546 shares of common stock at a value of \$4.1 million, which was included in treasury stock.

Compensation Expense

We recognize compensation cost for awards of restricted stock with graded vesting on a straight line basis over the requisite service period. There are no additional conditions for vesting other than service conditions. During both of the three months ended June 30, 2017 and 2016, we recognized \$1.5 million of total share-based compensation expense. Unrecognized compensation expense related to non-vested restricted stock was \$14.0 million as of June 30, 2017, which will be fully recognized over the next thirty six (36) months.

We also provide our employees with a contributory 401(k) profit sharing plan. We may make contributions to the plan. These contributions are not required and whether or not we choose to make them is entirely within our discretion. Our employer contributions to the plan are fully vested at all times. For the three months ended June 30, 2017 and 2016 our estimated contribution expense for the plan were \$0.6 million and \$0.4 million, respectively.

12. INCOME TAXES

We account for our tax positions in accordance with Codification Topic 740, Income Taxes. Under the guidance, we evaluate uncertain tax positions based on the two-step approach. The first step is to evaluate each uncertain tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained in an audit, including resolution of related appeals or litigation processes, if any. For tax positions that are not likely of being sustained upon audit, the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50 percent likely of being realized upon ultimate settlement.

Our total gross unrecognized tax benefits recorded for uncertain income tax, and interest and penalties thereon, were negligible as of June 30, 2017, and June 30, 2016. We had no additions or reductions to our gross unrecognized tax benefits during the three months ended June 30, 2017. We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense.

Table of Contents

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

We account for the fair values of our assets and liabilities in accordance with ASC Topic 820, Fair Value Measurement and Disclosure. The following table summarizes the fair value hierarchy of our financial instruments as of June 30, 2017 and March 31, 2017 (in thousands):

| | Recorded Amount | Fair Value Measurement Using | | |
|--------------------------|-----------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <u>June 30, 2017</u> | | | | |
| Assets: | | | | |
| Money market funds | \$ 34,952 | \$ 34,952 | \$ - | \$ - |
| Liabilities: | | | | |
| Contingent consideration | \$ 2,315 | \$ - | \$ - | \$ 2,315 |
| <u>March 31, 2017</u> | | | | |
| Assets: | | | | |
| Money market funds | \$ 50,866 | \$ 50,866 | \$ - | \$ - |
| Liabilities: | | | | |
| Contingent consideration | \$ 554 | \$ - | \$ - | \$ 554 |

For the three months ended June 30, 2017, we recorded adjustments that increased the fair value of our liability for contingent consideration by \$2.1 million due to a business acquisition, and \$0.3 million in payments that were made to satisfy the current obligations of the contingent consideration arrangement from our earlier acquisition of Consolidated IT Services.

For the three months ended June 30, 2016, we recorded adjustments that increased the fair value of our liability for contingent consideration by \$78 thousand and incurred no payments. These adjustments were presented within general and administrative expenses in our unaudited condensed consolidated statement of operations.

14. SEGMENT REPORTING

Our operations are conducted through two operating segments that are also both reportable segments. Our technology segment includes sales of information technology products, third-party software, third-party maintenance, advanced professional and managed services and our proprietary software to commercial enterprises, state and local governments, and government contractors. Our financing segment consists of the financing of IT equipment, software and related services to commercial enterprises, state and local governments, and government contractors. We measure the performance of the segments based on operating income.

Table of Contents

Our reportable segment information was as follows (in thousands):

| | Three Months Ended | | | June 30, 2016 | | |
|---|--------------------|-----------|-----------|---------------|-----------|-----------|
| | June 30, 2017 | | | June 30, 2016 | | |
| | Technology | Financing | Total | Technology | Financing | Total |
| Sales of product and services | \$357,080 | \$- | \$357,080 | \$290,181 | \$- | \$290,181 |
| Financing revenue | - | 9,071 | 9,071 | - | 6,987 | 6,987 |
| Fee and other income | 986 | 20 | 1,006 | 1,276 | 59 | 1,335 |
| Net sales | 358,066 | 9,091 | 367,157 | 291,457 | 7,046 | 298,503 |
| Cost of sales, product and services | 288,433 | - | 288,433 | 229,847 | - | 229,847 |
| Direct lease costs | - | 1,131 | 1,131 | - | 992 | 992 |
| Cost of sales | 288,433 | 1,131 | 289,564 | 229,847 | 992 | 230,839 |
| Selling, general, and administrative expenses | 51,501 | 3,163 | 54,664 | 45,213 | 2,841 | 48,054 |
| Depreciation and amortization | 2,062 | 1 | 2,063 | 1,771 | 4 | 1,775 |
| Interest and financing costs | - | 359 | 359 | - | 349 | 349 |
| Operating expenses | 53,563 | 3,523 | 57,086 | 46,984 | 3,194 | 50,178 |
| Operating income | \$16,070 | \$4,437 | \$20,507 | \$14,626 | \$2,860 | \$17,486 |

Selected Financial Data - Statement of Cash Flow

| | | | | | | |
|--|---------|---------|---------|---------|-------|---------|
| Depreciation and amortization | \$2,095 | \$1,130 | \$3,225 | \$1,788 | \$987 | \$2,775 |
| Purchases of property, equipment and operating lease equipment | \$1,091 | \$780 | \$1,871 | \$652 | \$238 | \$890 |

Selected Financial Data - Balance Sheet

| | | | | | | |
|--------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total assets | \$577,398 | \$177,786 | \$755,184 | \$450,992 | \$188,107 | \$639,099 |
|--------------|-----------|-----------|-----------|-----------|-----------|-----------|

15. BUSINESS COMBINATIONS

OneCloud Consulting Inc. acquisition

On May 17, 2017, our subsidiary ePlus Technology, inc., acquired 100% of the stock of OneCloud Consulting, Inc. (“OneCloud”). Based in Milpitas, CA, OneCloud is a versatile team of highly trained technology consultants, architects, developers and instructors. OneCloud enables its customers’ cloud and application strategy via professional services, technical education and software development. The acquisition provides us with additional ability to address customers’ needs in cloud-based solutions and infrastructure; including DevOps, OpenStack, and other emerging technologies, to our broad customer base.

Our preliminary sum of total consideration transferred is \$10.0 million consisting of \$7.9 million paid in cash at closing, net of cash acquired, and \$2.1 million equal to the preliminary fair value of contingent consideration calculated using the Monte Carlo simulation model. The maximum payout of the contingent consideration is \$4.5 million paid over 3 years. Our preliminary allocation of the purchase consideration to the assets acquired and liabilities assumed is presented below (in thousands):

Acquisition

Edgar Filing: EPLUS INC - Form 10-Q

| | Date | Amount |
|--|--------|--------|
| Accounts receivable and other assets | \$ | 488 |
| Identified intangible assets | | 3,980 |
| Accounts payable and other current liabilities | (1,688 |) |
| Total identifiable net assets | | 2,780 |
| Goodwill | | 7,205 |
| Total purchase consideration | \$ | 9,985 |

22

Table of Contents

Our sum for consideration transferred and our allocation of the purchase consideration is preliminary and subject to revision as additional information related to the fair value of assets and liabilities becomes available.

The identified intangible assets of \$4.0 million consist of customer relationships of \$1.6 million with an estimated useful life of 8 years, and internally developed processes of \$2.4 million with an estimated useful life of 5 years.

We recognized goodwill related to this transaction of \$7.2 million, which was assigned to our technology reporting unit. The goodwill recognized in the acquisition is attributable to the acquired assembled workforce and expected synergies, none of which qualify for recognition as a separate intangible asset. The total amount of goodwill is expected to be deductible for tax purposes. The amount of revenues and earnings of the acquiree since the acquisition date are not material. Likewise, the impact to the revenue and earnings of the combined entity for the current reporting period through the acquisition date had the acquisition date been April 1, 2017, is not material.

Consolidated IT Services acquisition

On December 6, 2016, our subsidiary ePlus Technology, inc., acquired certain assets and assumed certain liabilities of Consolidated IT Services. Consolidated IT Services' business provides data center, unified communications, networking, and security solutions to a diverse set of domestic and international customers including commercial, enterprise, and state, local, and education (SLED) organizations in the upper Midwest. The primary reasons for this acquisition are that Consolidated IT Services expands our reach to the upper Midwest, a new geography for ePlus, and enables us to market our advanced technology solutions to their long-standing customer base.

The total purchase price is \$13.1 million including \$9.5 million paid in cash at closing and \$4.0 million that will be paid in cash in equal quarterly installments over 2 years, less \$0.4 million paid back to us as part of the final working capital adjustment. Our allocation of the purchase consideration to the assets acquired and liabilities is presented below (in thousands):

| | Acquisition Date Amount |
|--|----------------------------|
| Accounts receivable and other current assets | \$ 7,491 |
| Property and equipment | 1,045 |
| Identified intangible assets | 4,090 |
| Accounts payable and other current liabilities | (5,786) |
| Total identifiable net assets | 6,840 |
| Goodwill | 6,227 |
| Total purchase consideration | \$ 13,067 |

In the quarter ended June 30, 2017, we increased identified intangible assets and decreased goodwill by \$280 thousand from the provisional amounts recorded as of March 31, 2017.

The identified intangible assets of \$4.1 million consist entirely of customer relationships with an estimated useful life of 7 years.

We recognized goodwill related to this transaction of \$6.2 million, which was assigned to our technology reporting unit. The goodwill recognized in the acquisition is attributable to the acquired assembled workforce and expected synergies, none of which qualify for recognition as a separate intangible asset. The total amount of goodwill is expected to be deductible for tax purposes. The amount of revenues and earnings of the acquiree since the acquisition date are not material. Likewise, the impact to the revenue and earnings of the combined entity for the prior reporting period through the acquisition date had the acquisition date been April 1, 2016 is not material.

Table of Contents

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

This discussion is intended to further the reader's understanding of our consolidated financial condition and results of operations. It should be read in conjunction with the financial statements included in this quarterly report on Form 10-Q and our annual report on Form 10-K for the fiscal year ended March 31, 2017 ("2017 Annual Report"). These historical financial statements may not be indicative of our future performance. This Management's Discussion and Analysis of Financial Condition and Results of Operations may contain forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risks described in Part I, Item 1A, "Risk Factors," in our 2017 Annual Report.

EXECUTIVE OVERVIEW

Business Description

We are a leading solutions provider that delivers actionable outcomes for organizations by utilizing information technology (IT) and consulting solutions to drive business agility and innovation. Leveraging world-class engineering talent, we assess, plan, deliver, and secure solutions comprised of leading technologies and consumption models aligned with customers' needs. Our expertise and experience enables ePlus to craft optimized solutions that take advantage of the cost, scale and efficiency of private, public and hybrid cloud in an evolving market. We also provide consulting, professional, managed and complete lifecycle management services including flexible financing solutions. We have been in the business of selling, leasing, financing, and managing information technology and other assets for more than 27 years.

Our primary focus is to deliver integrated technology solutions that address our customers' Cloud, Security and Digital Infrastructure needs, for both on-premise and in the cloud. Our Hybrid IT framework is a lifecycle approach that includes consulting, assessment, architecture, testing, implementation, managed services, maintenance and periodic consultative reviews. In addition to cloud, our portfolio of expertise includes software defined, security, IoT, data and analytics, mobility, hyper-converged infrastructure, and other advanced technologies. We design, implement and manage an array of IT solutions from multiple leading IT vendors. We are an authorized reseller from over 1,000 vendors, but primarily from approximately 100 vendors, including Artista Networks, Check Point, Cisco Systems, Citrix, Commvault, Dell EMC, F5 Networks, Gigamon, HP Inc., HPE, Juniper Networks, Lenovo, NetApp, Nimble Storage, Oracle, Palo Alto Networks, Pure Storage, Quantum, Splunk, and VMware, among many others. We possess top-level engineering certifications with a broad range of leading IT vendors that enable us to offer multi-vendor IT solutions that are optimized for each of our customers' specific requirements. Our hosted, proprietary software solutions are focused on giving our customers more control over their IT supply chain, by automating and optimizing the procurement and management of their owned, leased, and consumption-based assets.

Our scale and financial resources have enabled us to continue investing in engineering and technology resources and stay current with emerging technology trends. By delivering leading edge Hybrid IT solutions, ePlus has become a trusted advisor to our customers. Our integrated technology solutions incorporate hardware, software, security and both managed and professional services. In addition, we offer a wide range of consumption options including leasing and financing for technology and other capital assets. We believe our lifecycle approach offering of integrated solutions, services, financing, and our proprietary supply chain software, is unique in the industry. This broad portfolio enables us to deliver a unique customer experience that spans the continuum from fast delivery of competitively priced products, services, subsequent management and upkeep, through to end-of-life disposal services. This approach also permits us to accommodate our customers' business requirements and deliver ever-more-sophisticated hybrid IT solutions, thus solidifying our relationships and value.

Our go-to-market strategy focuses primarily on diverse end-markets for middle market to large enterprises. For the twelve months ended June 30, 2017, the percentage of revenue by customer end market within our technology

segment includes technology industry 25%, state and local government, and educational institutions 19%, telecommunications, media and entertainment 15%, financial services 13%, and healthcare 11%. The majority of our sales were generated within the United States; however, we have the ability to support our customers nationally and internationally including a physical location in the United Kingdom (“U.K.”), which was established by acquisition in December 4, 2015. Our technology segment accounted for 98% of our net sales, and 78% of our operating income, while our financing segment accounted for 2% of our net sales, and 22% of our operating income for the three months ended June 30, 2017.

Table of Contents

Key Business Metrics

Our management monitors a number of financial and non-financial measures and ratios on a regular basis in order to track the progress of our business. We believe that the most important of these measures and ratios include gross margin, gross margin on product and services, operating income margin, net earnings, net earnings per common share, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted gross billings of product and services, and non-GAAP net earnings per share. We use a variety of operating and other information to evaluate the operating performance of our business, develop financial forecasts, make strategic decisions, and prepare and approve annual budgets.

These key indicators include financial information that is prepared in accordance with US GAAP and presented in our unaudited condensed consolidated financial statements as well as non-GAAP performance measurement tools. Generally, a non-GAAP financial measure is a numerical measure of a company's performance of financial position that either excludes or includes amounts that are not normally included in the most directly comparable measure calculated and presented in accordance with US GAAP. Non-GAAP measures used by management may differ from similar measures used by other companies, even when similar terms are used to identify such measures.

Our key business metrics and results from those metrics are as follows, (dollars in thousands):

| | Three Months Ended | | | |
|---|--------------------|---|-----------|---|
| | June 30, | | | |
| | 2017 | | 2016 | |
| Sales of products and services | \$357,080 | | \$290,181 | |
| Adjusted gross billings of product and services (1) | \$481,685 | | \$397,473 | |
| Gross margin | 21.1 | % | 22.7 | % |
| Gross margin, product and services | 19.2 | % | 20.8 | % |
| Operating income margin | 5.6 | % | 5.9 | % |
| Net earnings | \$13,423 | | \$10,671 | |
| Net earnings margin | 3.7 | % | 3.6 | % |
| Net earnings per common share - diluted | \$0.96 | | \$0.75 | |
| Non-GAAP: Net earnings (2) | \$12,604 | | \$10,959 | |
| Non-GAAP: Net earnings per common share - diluted (2) | \$0.90 | | \$0.77 | |
| Adjusted EBITDA (3) | \$22,570 | | \$19,261 | |
| Adjusted EBITDA margin (3) | 6.1 | % | 6.5 | % |
| Purchases of property and equipment used internally | \$1,091 | | \$652 | |
| Purchases of equipment under operating leases | 780 | | 238 | |
| Total capital expenditures | \$1,871 | | \$890 | |

We define Adjusted gross billings of product and services as our sales of product and services calculated in accordance with US GAAP, adjusted to exclude the costs incurred related to sales of third party software (1) assurance, subscription licenses, maintenance and services. We have provided below a reconciliation of Adjusted gross billings of product and services to Sales of product and services, which is the most directly comparable financial measure to this non-GAAP financial measure.

We use Adjusted gross billings of product and services as a supplemental measure of our performance to gain insight into the volume of business generated by our technology segment, and to analyze the changes to our accounts receivable and accounts payable. Our use of Adjusted gross billings of product and services as analytical tools has limitations, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under US GAAP. In addition, other companies, including companies in our industry, might calculate Adjusted gross billings of product and services or similarly titled measures differently, which may reduce their usefulness as comparative measures.

Table of Contents

| | Three Months Ended June 30, | |
|---|--------------------------------|-----------|
| | 2017 | 2016 |
| Sales of products and services | \$357,080 | \$290,181 |
| Costs incurred related to sales of third party software assurance, maintenance and services | 124,605 | \$107,292 |
| Adjusted gross billings of product and services | \$481,685 | \$397,473 |

Non-GAAP net earnings per common share are based on net earnings calculated in accordance with US GAAP, adjusted to exclude other income and acquisition related amortization expense, and related effects on income tax, and the tax (benefit) expense recognized due to the vesting of shared based compensation. We use Non-GAAP net earnings per common share as a supplemental measure of our performance to gain insight into our operating performance. We believe that the exclusion of these items in calculating Non-GAAP net earnings per common share provides management and investors a useful measure for period-to-period comparisons of our business and (2) operating results by excluding items that management believes are not reflective of our underlying operating performance. Accordingly, we believe that non-GAAP net earnings per common share provide useful information to investors and others in understanding and evaluating our operating results. However, our use of Non-GAAP net earnings per common share as analytical tools has limitations, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under US GAAP. In addition, other companies, including companies in our industry, might calculate Non-GAAP net earnings per common share or similarly titled measures differently, which may reduce their usefulness as comparative measures.

| | Three Months Ended June 30, | |
|--|--------------------------------|----------|
| | 2017 | 2016 |
| GAAP: Earnings before tax | \$20,778 | \$17,486 |
| Acquisition related amortization expense | 1,121 | 1,089 |
| Other income | (271) | - |
| Non-GAAP: Earnings before provision for income taxes | 21,628 | 18,575 |
| GAAP: Provision for income taxes | 7,355 | 6,815 |
| Acquisition related amortization expense | 424 | 365 |
| Other income | (114) | - |
| Tax benefit on restricted stock | 1,359 | 436 |
| Non-GAAP: Provision for income taxes | 9,024 | 7,616 |
| Non-GAAP: Net earnings | \$12,604 | \$10,959 |
| GAAP: Net earnings per common share - diluted | \$0.96 | \$0.75 |
| Non-GAAP: Net earnings per common share - diluted | \$0.90 | \$0.77 |

We define Adjusted EBITDA as net earnings calculated in accordance with US GAAP, adjusted for the following: interest expense, depreciation and amortization, provision for income taxes, and other income. We consider the interest on notes payable from our financing segment and depreciation expense presented within cost of sales, which includes depreciation on assets financed as operating leases, to be operating expenses. As such, they are not (3) included in the amounts added back to net earnings in the Adjusted EBITDA calculation. We provide below a reconciliation of Adjusted EBITDA to net earnings, which is the most directly comparable financial measure to this non-GAAP financial measure. Adjusted EBITDA margin is our calculation of Adjusted EBITDA divided by net sales.

Table of Contents

We use Adjusted EBITDA as a supplemental measure of our performance to gain insight into our operating performance. We believe that the exclusion of other income in calculating Adjusted EBITDA and Adjusted EBITDA margin provides management and investors a useful measure for period-to-period comparisons of our business and operating results by excluding items that management believes are not reflective of our underlying operating performance. Accordingly, we believe that Adjusted EBITDA and Adjusted EBITDA margin provide useful information to investors and others in understanding and evaluating our operating results. However, our use of Adjusted EBITDA and Adjusted EBITDA margin as analytical tools has limitations, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under US GAAP. In addition, other companies, including companies in our industry, might calculate Adjusted EBITDA and Adjusted EBITDA margin or similarly titled measures differently, which may reduce their usefulness as comparative measures.

| | Three Months Ended June 30, | |
|-------------------------------|--------------------------------|-----------|
| <u>Consolidated</u> | 2017 | 2016 |
| Net earnings | \$ 13,423 | \$ 10,671 |
| Provision for income taxes | 7,355 | 6,815 |
| Depreciation and amortization | 2,063 | 1,775 |
| Other income | (271) | - |
| Adjusted EBITDA | \$ 22,570 | \$ 19,261 |

Technology Segment

| | | |
|-------------------------------|-----------|-----------|
| Operating income | \$ 16,070 | \$ 14,626 |
| Depreciation and amortization | 2,062 | 1,771 |
| Adjusted EBITDA | \$ 18,132 | \$ 16,397 |

Financing Segment

| | | |
|-------------------------------|----------|----------|
| Operating income | \$ 4,437 | \$ 2,860 |
| Depreciation and amortization | 1 | 4 |
| Adjusted EBITDA | \$ 4,438 | \$ 2,864 |

Consolidated Results of Operations

During the three months ended June 30, 2017, net sales increased 23.0%, or \$68.7 million to \$367.2 million, compared to \$298.5 million for the same period in the prior fiscal year. Adjusted gross billings of product and services increased 21.2%, or \$84.2 million to \$481.7 million, for the three months ended June 30, 2017 from \$397.5 million for the same period in the prior fiscal year. This increase in demand was from commercial customers primarily in the technology industry.

Consolidated gross profit rose 14.7% to \$77.6 million, compared with \$67.7 million for the three months ended June 30, 2016. Consolidated gross margins were 21.1% for the three months ended June 30, 2017 an decrease of 160 basis points compared to 22.7% for the same period in the prior fiscal year. The decrease in margins for the three month period was due to a shift in product mix, as we sold a lower proportion of third party software assurance, maintenance and services, and gross margins also decreased due to a large competitively bid project which partially shipped during the quarter. Also contributing to the lower margins was a decrease in vendor incentives earned.

Our operating expenses increased 13.8% to \$57.1 million, or 15.5% of net sales for the three months ended June 30, 2017 as compared to \$50.2 million, representing 16.8% of net sales in the same period last year. The majority of this increase reflects increased variable compensation as a result of the increase in gross profit, as well as additional employees, and an increase in employee healthcare costs. Our headcount increased by 124 employees or 11.3% to

1,223 from 1,099 a year ago, 48 of which were from the acquisition of Consolidated IT Services and 57 from the OneCloud acquisition. The personnel additions included 113 sales and engineering positions, with the remaining additions being administrative positions.

27

Table of Contents

Operating income for the three months ended June 30, 2017 increased 17.3% to \$20.5 million, as compared to \$17.5 million for the three months ended June 30, 2016. For the three months ended June 30, 2017, the operating income margin decreased 30 basis points to 5.6% from 5.9% for the same period in the prior year.

Consolidated net earnings for the three months ended June 30, 2017 were \$13.4 million, an increase of 25.8%, or \$2.8 million, over the prior year's results.

Adjusted EBITDA increased \$3.3 million, or 17.2%, to \$22.6 million and Adjusted EBITDA margin decreased 40 basis points to 6.1% for the three months ended June 30, 2017, as compared to the prior period of 6.5%.

Diluted earnings per share increased 28.0%, or \$0.21 to \$0.96 per share for the three months ended June 30, 2017, as compared to \$0.75 per share for the three months ended June 30, 2016. Our effective tax rate for the three months ended June 30, 2017 was 35.4%, which includes a tax benefit of \$1.4 million related to the vesting of share based compensation during the quarter. Non-GAAP diluted earnings per share increased 16.9% to \$0.90 for the three months ended June 30, 2017, as compared to \$0.77 for the three months ended June 30, 2016.

Cash and cash equivalents decreased \$11.5 million or 10.5% to \$98.2 million at June 30, 2017 compared with \$109.8 million as of March 31, 2017. The decrease is primarily the result of investments in our financing portfolio, working capital required for the growth in our technology segment, and \$9.5 million paid in cash at closing for our acquisition of OneCloud. Our cash 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.

Segment Overview

Our operations are conducted through two segments: technology and financing.

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. Included in the sales of product and services are revenues derived from performing advanced IT professional and managed services that may be sold together with and integral to third-party products and software. 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.

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 state and local governments is based on public bids and our written bid responses.

We endeavor to minimize our cost of sales through incentive programs provided by vendors and distributors. The programs we qualify for are generally set by our reseller authorization level with the vendor. 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 purchase 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.

Table of Contents

Financing Segment

Our financing segment offers financing solutions to corporations, governmental entities, and educational institutions nationwide and also in the United Kingdom, Canada and Iceland. The financing segment derives revenue from leasing IT and medical equipment and the disposition of that equipment at the end of the lease. The financing segment also derives revenues from the financing of third-party software licenses, software assurance, maintenance and other services.

Financing revenue generally falls into the following three categories:

- Portfolio income: Interest income from financing receivables and rents due under operating leases;
- Transactional gains: Net gains or losses on the sale of financial assets; and
- Post-contract earnings: Month-to-month rents; early termination, prepayment, make-whole, or buyout fees; and net gains on the sale of off-lease (used) equipment.

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. We also recognize revenue from events that occur after the initial sale of a financial asset and remarketing fees from certain residual value investments.

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 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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with US 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 incentives, 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.

Our critical accounting estimates have not changed from those reported in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2017 Annual Report.

Table of Contents

SEGMENT RESULTS OF OPERATIONS

The three months ended June 30, 2017 compared to the three months ended June 30, 2016

Technology Segment

The results of operations for our technology segment for the three months ended June 30, 2017 and 2016 were as follows (dollars in thousands):

| | Three Months Ended June 30, | | | |
|---|-----------------------------|------------|----------|----------|
| | 2017 | 2016 | Change | |
| Sales of product and services | \$ 357,080 | \$ 290,181 | \$66,899 | 23.1 % |
| Fee and other income | 986 | 1,276 | (290) | (22.7 %) |
| Net sales | 358,066 | 291,457 | 66,609 | 22.9 % |
| Cost of sales, product and services | 288,433 | 229,847 | 58,586 | 25.5 % |
| Gross profit | 69,633 | 61,610 | 8,023 | 13.0 % |
| Selling, general, and administrative expenses | 51,501 | 45,213 | 6,288 | 13.9 % |
| Depreciation and amortization | 2,062 | 1,771 | 291 | 16.4 % |
| Operating expenses | 53,563 | 46,984 | 6,579 | 14.0 % |
| Operating income | \$ 16,070 | \$ 14,626 | \$1,444 | 9.9 % |
| Adjusted EBITDA | \$ 18,132 | \$ 16,397 | \$1,735 | 10.6 % |

Net sales: Net sales for the three months ended June 30, 2017 were \$358.1 million compared to \$291.5 million during the three months ended June 30, 2016, an increase of 22.9%, or \$66.6 million. Adjusted gross billings of product and services for the three months ended June 30, 2017 were \$481.7 million compared to \$397.5 million during the three months ended June 30, 2016, an increase of 21.2% or \$84.2 million. The increase in net sales of product and services was due, in part, to an increase in demand for products and services from customers in the technology, telecom, media and entertainment, and financial services industries, and sales during the current quarter relating to several large projects by major customers.

Summarized below are the sequential and year-over-year changes in net sales of product and services:

| Quarter Ended | Sequential | Year over Year |
|--------------------|------------|----------------|
| June 30, 2017 | 11.1 % | 23.1 % |
| March 31, 2017 | 1.3 % | 10.3 % |
| December 31, 2016 | (12.1 %) | 10.3 % |
| September 30, 2016 | 24.5 % | 11.4 % |
| June 30, 2016 | (0.5 %) | 11.7 % |

We rely on our vendors to fulfill a large majority of shipments to our customers. As of June 30, 2017, we had open orders of \$187.7 million and deferred revenue of \$66.5 million. As of June 30, 2016, we had open orders of \$200.1 million and deferred revenues of \$18.5 million.

We analyze sales of products and services by customer end market and by manufacturer, as opposed to discrete product and service categories. The percentage of sales of product and services by industry and vendor are summarized below:

Table of Contents

| | Twelve Months Ended June 30, | | Change | |
|--|------------------------------|------|--------|---------|
| | 2017 | 2016 | | |
| <u>Revenue by customer end market:</u> | | | | |
| Technology | 25 | % | 22 | % 3 % |
| SLED | 19 | % | 22 | % (3 %) |
| Telecom, Media & Entertainment | 15 | % | 14 | % 1 % |
| Financial Services | 13 | % | 12 | % 1 % |
| Healthcare | 11 | % | 11 | % - |
| Other | 17 | % | 19 | % (2 %) |
| Total | 100 | % | 100 | % |
| <u>Revenue by vendor:</u> | | | | |
| Cisco Systems | 46 | % | 49 | % (3 %) |
| HP Inc. & HPE | 7 | % | 6 | % 1 % |
| NetApp | 5 | % | 5 | % - |
| Sub-total | 58 | % | 60 | % (2 %) |
| Other | 42 | % | 40 | % 2 % |
| Total | 100 | % | 100 | % |

Our revenues by customer end market have remained consistent over the year with approximately 80% of our revenues generated from customers within the five end markets identified above. During the trailing twelve months ended June 30, 2017 we had an increase in the percentage total revenues from customers in the technology, telecom, media and entertainment, and financial services industries, which were partially offset by decreases in the percentage of total revenues from state and local government and educational customers (“SLED”) over the prior year period. These changes were driven by changes in customer buying cycles and specific IT related initiatives, rather than the acquisition or loss of a customer or set of customers.

The majority of our revenues by vendor are derived from Cisco Systems, a combined HP Inc. and HPE, and NetApp, which in total, declined to 58% for the twelve months ended June 30, 2017, from approximately 60% in the prior year trailing twelve month period, with the greatest decline in the percentage of total revenues in HP Inc. product sales. The decrease in the percentage of revenues from the top three vendors is due to substantial competition and rapid developments in the IT industry. None of the vendors included within the “other” category exceeded 4% of total revenues.

Cost of sales, product and services: The 25.5% increase in cost of sales, product and services was due to the increase in sales of product and services, and an increase in the sales of lower margin products during the quarter. Our gross margin on the sales of product and services decreased 160 basis points to 19.2% for the three months ended June 30, 2017, from 20.8% in the same period in the prior year due to a shift in product mix, as we sold a lower proportion of third party software assurance, maintenance and services for which the revenues are presented on a net basis, as well as lower product margins from a large competitively bid project which partially shipped during the quarter. In addition, vendor incentives earned as a percentage of sales of product and services decreased 50 basis points for the three months ended June 30, 2017, compared to same period in the prior year.

There are ongoing changes to the incentive programs offered to us by our vendors. Accordingly, if we are unable to maintain the level of vendor incentives we are currently receiving, gross margins may decrease.

Selling, general, and administrative expenses: Selling, general, and administrative expenses of \$51.5 million for the three months ended June 30, 2017 increased by \$6.3 million, or 13.9% from \$45.2 million the prior year. Salaries and benefits increased \$5.6 million or 15.0% to \$43.1 million, compared to \$37.5 million during the prior year. Approximately 33% of this increase was due to higher variable compensation due to the increase in gross profit, 31%

of the increase was due to higher employee benefits, and the remaining increase was due to an increase in the number of employees. Our technology segment had 1,175 employees as of June 30, 2017, an increase of 127, or 12.1%, from 1,048 at June 30, 2016, of which 116 of the positions added in the past year relate to sales, marketing, and professional services personnel. General and administrative expenses increased \$0.4 million, or 6.2%, to \$6.6 million during the three months ended June 30, 2017 compared to \$6.2 million the prior year, due to higher travel expense and software license and maintenance expense. Professional and other fees increased due to legal fees related to the OneCloud acquisition.

Depreciation and amortization expense increased \$0.3 million, or 16.4%, to \$2.1 million during the three months ended June 30, 2017 compared to \$1.8 million in the prior year. The increase in depreciation and amortization expense is related to the acquisition of Consolidated IT Services in December 2016, and OneCloud in May 2017.

Table of Contents

Segment operating income: As a result of the foregoing, operating income was \$16.1 million, an increase of \$1.4 million, or 9.9% for the three months ended June 30, 2017 over \$14.6 million in the prior year period. For the three months ended June 30, 2017, Adjusted EBITDA was \$18.1 million, an increase of \$1.7 million, or 10.6% over \$16.4 million in the prior year period.

Financing Segment

The results of operations for our financing segment for the three months ended June 30, 2017 and 2016 were as follows (dollars in thousands):

| | Three Months Ended June 30, | | | Change | |
|---|-----------------------------|----------|---------|--------|---|
| | 2017 | 2016 | | | |
| Financing revenue | \$ 9,071 | \$ 6,987 | \$2,084 | 29.8 | % |
| Fee and other income | 20 | 59 | (39) | 66.1 | % |
| Net sales | 9,091 | 7,046 | 2,045 | 29.0 | % |
| Direct lease costs | 1,131 | 992 | 139 | 14.0 | % |
| Gross profit | 7,960 | 6,054 | 1,906 | 31.5 | % |
| Selling, general, and administrative expenses | 3,163 | 2,841 | 322 | 11.3 | % |
| Depreciation and amortization | 1 | 4 | (3) | (75.0) | % |
| Interest and financing costs | 359 | 349 | 10 | 2.9 | % |
| Operating expenses | 3,523 | 3,194 | 329 | 10.3 | % |
| Operating income | \$ 4,437 | \$ 2,860 | \$1,577 | 55.1 | % |
| Adjusted EBITDA | \$ 4,438 | \$ 2,864 | \$1,574 | 55.0 | % |

Net sales: Net sales increased by \$2.0 million, or 29.0%, to \$9.1 million for the three months ended June 30, 2017, as compared to prior year results due to higher transactional gains and other financing revenues. During the quarters ended June 30, 2017 and 2016, we recognized net gains on sales of financial assets of \$2.3 million and \$1.5 million, respectively, and the fair value of assets received from these sales were \$85.8 million and \$54.2 million, respectively. Other financing revenues increased \$0.8 million mainly due to earnings on consumption based financing arrangements.

At June 30, 2017, we had \$128.2 million in financing receivables and operating leases, compared to \$143.1 million as of June 30, 2016, a decrease of \$14.9 million or 10.4%.

Direct lease costs: Direct lease costs increased \$0.1 million for the three months ended June 30, 2017, which consists of depreciation expense from operating leases. Gross profit increased \$1.9 million, or 31.5% to \$8.0 million, for the three months ended June 30, 2017 over the same period of the prior year, as a result of higher revenues.

Selling, general, and administrative expenses: For the three months ended June 30, 2017 selling, general, and administrative expenses increased by \$0.3 million or 11.3%, which was due primarily to an increase in our reserves for credit losses expense. Our financing segment had 48 employees as of June 30, 2017, compared to 51 employees as of June 30, 2016.

Interest and financing costs remained constant at \$0.3 million for the three months ended June 30, 2017, compared to the prior year, due to a decrease in the average total notes payable outstanding, offset by higher average interest rates over the three months ended June 30, 2017. Total notes payable were \$36.5 million as of June 30, 2017, a decrease of \$20.4 million or 35.9% compared to \$56.9 million as of June 30, 2016. Our weighted average interest rate for

non-recourse notes payable was 3.64% and 3.08%, as of June 30, 2017 and June 30, 2016, respectively.

Segment operating income: As a result of the foregoing, operating income and Adjusted EBITDA increased \$1.6 million or 55.1% and 55.0%, respectively, for the three months ended June 30, 2017 over the prior year period.

Table of Contents
Consolidated

Other income: Other income of \$0.3 million during the three months ended June 30, 2017, consists of interest on cash and cash equivalents, and foreign currency transaction gains.

Income taxes: Our provision for income tax expense was \$7.4 million for the three months ended June 30, 2017, as compared to \$6.8 million for the same period last year. Our effective income tax rate for the three months ended June 30, 2017 was 35.4%, compared to 39.0% for the three months ended June 30, 2016. The favorable change in our effective income tax rate was due primarily to a tax benefit on the vesting of restricted stock of \$1.4 million in the three months ended June 30, 2017, compared to a tax benefit of \$0.4 million in the three months ended June 30, 2016.

Net earnings: The foregoing resulted in net earnings of \$13.4 million for the three months ended June 30, 2017, an increase of 25.8%, as compared to \$10.7 million during the three months ended June 30, 2016.

Basic and fully diluted earnings per common share were \$0.97 and \$0.96, for the three months ended June 30, 2017, an increase of 27.6% and 28.0% as compared to \$0.76 and \$0.75, respectively, for the three months ended June 30, 2016.

Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the three months ended June 30, 2017 was 13.8 million and 14.0 million, respectively. Weighted average common shares outstanding used in the calculation of the basic and diluted earnings per common share for the three months ended June 30, 2016 was 14.1 million and 14.2 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Overview

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

Our subsidiary ePlus Technology, inc., part of our technology segment, finances its operations with funds generated from operations, and with a credit facility with Wells Fargo Commercial Distribution Finance, LLC or (“WFCDF”). (f/k/a GE Commercial Distribution Finance LLC). ePlus Technology, inc’s agreement with WFCDF has an aggregate credit limit of \$250 million as of June 30, 2017. There are two components of this facility: (1) a floor plan component; and (2) an accounts receivable component. After a customer places a purchase order with us and we have completed our credit check, we place an order for the equipment with one of our vendors. Generally, most purchase orders from us to our vendors are first financed under the floor plan component and reflected in “accounts payable—floor plan” in our consolidated balance sheets. Payments on the floor plan component are due on three specified dates each month, generally 30-60 days from the invoice date. On the due date of the invoices financed by the floor plan component, the invoices are paid by the accounts receivable component of the credit facility. The balance of the accounts receivable component is then reduced by payments from our available cash. The outstanding balance under the accounts receivable component is recorded as recourse notes payable on our consolidated balance sheets. There was no outstanding balance at June 30, 2017 or March 31, 2017, while the maximum credit limit was \$30.0 million for both periods. The borrowings and repayments under the floor plan component are reflected as “net borrowings on floor plan facility” in the cash flows from financing activities section of our consolidated statements of cash flows.

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

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

Table of Contents

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

Cash Flows

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

| | Three Months Ended June 30, | |
|---|-----------------------------|--------------|
| | 2017 | 2016 |
| Net cash used in operating activities | \$ (3,450) | \$ (12,719) |
| Net cash used in investing activities | (13,836) | (17,510) |
| Net cash provided by financing activities | 5,819 | 13,953 |
| Effect of exchange rate changes on cash | (49) | 317 |
| Net decrease in cash and cash equivalents | \$ (11,516) | \$ (15,959) |

Cash flows from operating activities. Cash used in operating activities totaled \$3.5 million during the three months ended June 30, 2017. Net earnings adjusted for the impact of non-cash items was \$14.0 million. Net changes in assets and liabilities resulted in a decrease of cash and cash equivalents of \$17.5 million, primarily due to net additions to accounts receivables of \$13.8 million, deferred costs, other intangible assets and other assets of \$6.0 million, financing receivables of \$3.9 million, and salaries and commissions payable, deferred revenues and other liabilities of \$4.6 million, partially offset by increases accounts payable of \$7.6 million and reductions in inventories of \$3.2 million.

Cash flows from operating activities. Cash used in operating activities totaled \$12.7 million during the three months ended June 30, 2016. Net earnings adjusted for the impact of non-cash items was \$11.0 million. Net changes in assets and liabilities resulted in a decrease of cash and cash equivalents of \$23.7 million, primarily due to additions to accounts receivables of \$19.9 million, inventories of \$13.2 million, partially offset by increases in deferred costs, other intangible assets, and other assets of \$4.1 million and increases in accounts payable of \$3.8 million.

In order to manage our working capital, we monitor our cash conversion cycle for our Technology segment, which is defined as days sales outstanding (“DSO”) in accounts receivable plus days of supply in inventory (“DIO”) minus days of purchases outstanding in accounts payable (“DPO”). The following table presents the components of the cash conversion cycle for our Technology segment:

| | As of June 30, | |
|--------------------------------------|----------------|-------|
| | 2017 | 2016 |
| (DSO) Days sales outstanding (1) | 49 | 54 |
| (DIO) Days inventory outstanding (2) | 19 | 10 |
| (DPO) Days payable outstanding (3) | (42) | (46) |
| Cash conversion cycle | 26 | 18 |

Represents the rolling three-month average of the balance of trade accounts receivable-trade, net for our (1) Technology segment at the end of the period divided by Adjusted gross billings of product and services for the same three-month period.

(2)

Represents the rolling three-month average of the balance of inventory, net for our Technology segment at the end of the period divided by Cost of adjusted gross billings of product and services for the same three-month period.

Represents the rolling three-month average of the combined balance of accounts payable-trade and accounts (3) payable-floor plan for our Technology segment at the end of the period divided by Cost of adjusted gross billings of product and services for the same three-month period.

Our cash conversion cycle increased to 26 days at June 30, 2017, compared to 18 days at June 30, 2016, primarily driven by an increase in DIO of 9 days. Our DIO as of June 30, 2017 was primarily impacted by an increase in average inventory balances of 95.1%, or \$44.1 million, over last year primarily due to a large project for one of our major customers. Offsetting this increase in inventory was a \$48.0 million increase in deferred revenues due to payments received for the committed inventory, which are not reflected in our cash conversion cycle calculation. The remaining change our in our cash conversion cycle is due to DSO timing of collections, and due to DPO timing of payments.

Table of Contents

Cash flows related to investing activities. Cash used in investing activities was \$13.8 million during the three months ended June 30, 2017. Cash used in investing activities during the three months ended June 30, 2017 was primarily driven by issuance of financing receivables of \$51.0 million, acquisitions of \$7.9 million, and purchases of assets to be leased or financed of \$3.0 million, which was partially offset by cash proceeds from the repayment financing receivable of \$20.6 million, and the sale of financing receivables of \$28.4 million.

Cash used in investing activities was \$17.5 million during the three months ended June 30, 2016. Cash used in investing activities during the three months ended June 30, 2016 was primarily driven by issuance of financing receivables of \$32.1 million, and purchases of assets to be leased or financed of \$6.1 million, which was partially offset by cash proceeds from the sale of financing receivables of \$13.6 million, the repayment financing receivable of \$5.9 million, and proceeds from the sale of property, equipment and operating lease equipment of \$2.1 million.

Cash flows from financing activities. Cash provided by financing activities was \$5.8 million during the three months ended June 30, 2017, which was primarily due to net borrowings of non-recourse and recourse notes payable of \$4.2 million, and net borrowing on floor plan facility of \$6.3 million, partially offset by cash used for the repurchase of common stock of \$4.1 million, and repayment of financing of acquisitions of \$0.6 million. Cash provided by financing activities was \$14.0 million during the three months ended June 30, 2016, which was primarily due to net borrowings on the floor plan facility of \$22.6 million and net borrowings of non-recourse and recourse notes payable of \$12.0 million, which was partially offset by \$20.6 million in cash used for the repurchase of common stock.

Non-Cash Activities

We assign contractual payments due under lease and financing agreements to third-party financial institutions, which are accounted for as non-recourse notes payable. As a condition to the assignment agreement, certain financial institutions may request that the customer remit their contractual payments to a trust; rather than to us, and the trust pays the financial institution. Alternatively, if the structure of the agreement does not require a trustee, the customer will continue to make payments to us, and we will remit the payment to the financial institution. The economic impact to us under either assignment structure is similar, in that the assigned contractual payments are paid by the customer and remitted to the lender to pay down the corresponding non-recourse notes payable. However, these assignment structures are classified differently within our consolidated statements of cash flows. More specifically, we are required to exclude non-cash transactions from our consolidated statement of cash flows, so certain contractual payments made by the customer to the trust are excluded from our operating cash receipts and the corresponding repayment of the non-recourse notes payable from the trust to the third-party financial institution are excluded from our cash flows from financing activities. Contractual payments received by the trust and paid to the lender on our behalf are disclosed as a non-cash financing activity.

Liquidity and Capital Resources

We may utilize non-recourse notes payable to finance approximately 80% to 100% of the purchase price of the assets being leased or financed by our customers. Any balance of the purchase price remaining after non-recourse funding and any upfront payments received from the customer (our equity investment in the equipment) must generally be financed by cash flows from our operations, the sale of the equipment leased to third parties, or other internal means. Although we expect that the credit quality of our financing arrangements and our residual return history will continue to allow us to obtain such financing, such financing may not be available on acceptable terms, or at all.

The financing necessary to support our lease and financing activities has been provided by our cash and non-recourse borrowings. We monitor our exposure closely. We are able to obtain financing through our traditional lending sources which is primarily non-recourse borrowings from third party banks and finance companies. Non-recourse financings are loans whose repayment is the responsibility of a specific customer, although we may make representations and warranties to the lender regarding the specific contract or have ongoing loan servicing obligations. Under a

non-recourse loan, we borrow from a lender an amount based on the present value of the contractually committed payments at a fixed rate of interest, and the lender secures a lien on the financed assets. When the lender is fully repaid, the lien is released and all further proceeds are ours. We are not liable for the repayment of non-recourse loans unless we breach our representations and warranties in the loan agreements. The lender assumes the credit risk, and the lender's only recourse, upon default, is against the customer and the specific equipment.

At June 30, 2017, our non-recourse notes payable decreased 2.2% to \$35.7 million, as compared to \$36.5 million at March 31, 2017. Recourse notes payable decreased 12.0% to \$0.8 million as of June 30, 2017 compared to \$0.9 million as of March 31, 2017.

Table of Contents

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

Credit Facility — Technology

Our subsidiary, ePlus Technology, inc., has a financing facility from WFCDF to finance its working capital requirements for inventories and accounts receivable. There are two components of this facility: (1) a floor plan component; and (2) an accounts receivable component. This facility has full recourse to ePlus Technology, inc. and is secured by a blanket lien against all its assets, such as chattel paper, receivables and inventory. As of June 30, 2017, the facility had an aggregate limit of the two components of \$250.0 million with an accounts receivable sub-limit of \$30.0 million.

Availability under the facility may be limited by the asset value of equipment we purchase or accounts receivable, and may be further limited by certain covenants and terms and conditions of the facility. These covenants include but are not limited to a minimum excess availability of the facility and minimum earnings before interest, taxes, depreciation and amortization of ePlus Technology, inc. We were in compliance with these covenants as of June 30, 2017. Interest on the facility is assessed at a rate of the One Month LIBOR plus two and one half percent if the payments are not made on the three specified dates each month. The facility also requires that financial statements of ePlus Technology, inc. be provided within 45 days of each quarter and 90 days of each fiscal year end and also requires other operational reports be provided on a regular basis. Either party may terminate the facility with 90 days advance written notice.

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

The facility provided by WFCDF requires a guaranty of \$10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its annual audited financial statements by a certain date. We have delivered the annual audited financial statements for the year ended March 31, 2017, as required. The loss of the WFCDF credit facility could have a material adverse effect on our future results as we currently rely on this facility and its components for daily working capital and liquidity for our technology segment and as an operational function of our accounts payable process.

On July 27, 2017, we executed an amendment to the WFCDF credit facility which temporarily increases the aggregate limit of the two components from \$250.0 million to \$325.0 million from the date of the agreement through October 31, 2017 and provides us an election beginning July 1 in each subsequent year to similarly temporarily increase the aggregate limit of the two components to \$325.0 million ending the earlier of 90 days following the date of election and October 31 of that same year.

Floor Plan Component

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

Edgar Filing: EPLUS INC - Form 10-Q

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

| Maximum Credit Limit at June 30, 2017 | Balance as of June 30, 2017 | Maximum Credit Limit at March 31, 2017 | Balance as of March 31, 2016 |
|--|--------------------------------|---|---------------------------------|
| \$ 250,000 | \$ 138,932 | \$ 250,000 | \$ 132,612 |

Table of Contents

Accounts Receivable Component

Included within the credit facility, ePlus Technology, inc. has an accounts receivable component from WFCDF, which has a revolving line of credit. On the due date of the invoices financed by the floor plan component, the invoices are paid by the accounts receivable component of the credit facility. The balance of the accounts receivable component is then reduced by payments from our available cash. The outstanding balance under the accounts receivable component is recorded as recourse notes payable on our consolidated balance sheets. There was no balance outstanding for the accounts receivable component at June 30, 2017 or March 31, 2017, while the maximum credit limit was \$30.0 million for both periods.

Performance Guarantees

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

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K or other contractually narrow or limited purposes. As of June 30, 2017, we were not involved in any unconsolidated special purpose entity transactions.

Adequacy of Capital Resources

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

Inflation

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

Potential Fluctuations in Quarterly Operating Results

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

companies, IT resellers, software competitors, major customers or vendors of ours.

Our quarterly results of operations are susceptible to fluctuations for a number of reasons, including, but not limited to currency fluctuations, reduction in IT spending, any reduction of expected residual values related to the equipment under our leases, the timing and mix of specific transactions, the reduction of manufacturer incentive programs, and other factors. Quarterly operating results could also fluctuate as a result of our sale of equipment in our lease portfolio at the expiration of a lease term or prior to such expiration, to a lessee or to a third party and the transfer of financial assets. Sales of equipment and transfers of financial assets may have the effect of increasing revenues and net income during the quarter in which the sale occurs, and reducing revenues and net income otherwise expected in subsequent quarters. See Part I, Item 1A, "Risk Factors," in our 2017 Annual Report.

Table of Contents

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Although a substantial portion of our liabilities are non-recourse, fixed-interest-rate instruments, we utilize our lines of credit and other financing facilities which are subject to fluctuations in short-term interest rates. These instruments, which are denominated in U.S. dollars, were entered into for other than trading purposes and, with the exception of amounts drawn under the WFCDF facility, bear interest at a fixed rate. Because the interest rate on these instruments is fixed, changes in interest rates will not directly impact our cash flows. Borrowings under the WFCDF facility bear interest at a market-based variable rate. As of June 30, 2017, the aggregate fair value of our recourse and non-recourse borrowings approximated their carrying value.

We have transactions in foreign currencies, primarily in British Pounds and in Euros. There is a potential for exposure to fluctuations in foreign currency rates resulting primarily from the translation exposure associated with the preparation of our consolidated financial statements. In addition, we have foreign currency exposure when transactions are not denominated in the subsidiary's functional currency. To date, our foreign operations are insignificant in relation to total consolidated operations and we believe that potential fluctuations in currency exchange rates will not have a material effect on our financial position.

Since the June 23, 2016 UK referendum ("Brexit") on whether to remain in, or leave, the European Union, the United Kingdom has faced a remarkable range of political, monetary, economic and even constitutional challenges. For some companies, Brexit could impact revenue items, cost items, tax, goodwill impairments and liquidity, among others. The most obvious immediate impact is the effect of foreign exchange fluctuations on revenue and cost items. We have determined that our foreign currency exposure for our United Kingdom operations is insignificant in relation to total consolidated operations and we believe those potential fluctuations in currency exchange rates and other Brexit related economic and operational risks will not have a material effect on our results of operations and financial position. We evaluate Brexit-related developments on a regular basis to determine if such developments are anticipated to have a material impact on the Company's results on operations and financial position.

We have assets in Canada and Iceland. As a lessor, we have entered into lease contracts and non-recourse, fixed-interest-rate financing denominated in Canadian dollars and in Icelandic krona. In our fiscal year beginning April 1, 2016, we began entering in financing transactions and non-recourse, fixed-interest-rate financing denominated in British Pounds in the United Kingdom. To date, our foreign operations have been insignificant and we believe that potential fluctuations in currency exchange rates will not have a material effect on our financial position.

Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures, or "disclosure controls," as defined in the Exchange Act Rule 13a-15(e). Disclosure controls are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this quarterly report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls include some, but not all, components of our internal control over financial reporting. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of June 30, 2017.

Changes in Internal Controls

There have not been any changes in our internal control over financial reporting during the quarter ended June 30, 2017, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

38

Table of Contents

Limitations on the Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system cannot provide absolute assurance due to its inherent limitations; it is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. A control system also can be circumvented by collusion or improper management override. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of such limitations, disclosure controls and internal control over financial reporting cannot prevent or detect all misstatements, whether unintentional errors or fraud. However, these inherent limitations are known features of the financial reporting process; therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently a party to any legal proceedings with loss contingencies that are expected to be material. From time to time, we may be a plaintiff or a defendant in legal actions arising from our normal business activities, none of which has had a material effect on our business, results of operations or financial condition. Legal proceedings which may arise in the ordinary course of business include preference payment claims asserted in customer bankruptcy proceedings, tax audits, 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, claims related to alleged violations of laws and regulations, and claims relating to alleged security or privacy breaches. We attempt to ameliorate the effect of potential litigation through insurance coverage and contractual protections such as rights to indemnifications and limitations of liability. 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, however, 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 1A. Risk Factors

There has not been any material change in the risk factors previously disclosed in Part I, Item 1A of our 2017 Annual Report.

Table of Contents

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

The following table provides information regarding our purchases of ePlus inc. common stock during the three months ended June 30, 2017.

| 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, 2017 through April 30, 2017 | 54,546 | \$ 75.72 | - | 1,000,000 (2) |
| May 1, 2017 through May 31, 2017 | - | \$ - | - | 1,000,000 (3) |
| June 1, 2017 through June 30, 2017 | - | \$ - | - | 1,000,000 (4) |

(1) Any shares acquired were in open-market purchases, except for 54,546 shares, which were repurchased in June 2017 to satisfy tax withholding obligations that arose due to the vesting of shares of restricted stock.

The share purchase authorization in place for the month ended April 30, 2017 had purchase limitations on the (2) number of shares of up to 1,000,000 shares. As of April 30, 2017, the remaining authorized shares to be purchased were 1,000,000.

The share purchase authorization in place for the month ended May 31, 2017 had purchase limitations on the (3) number of shares of up to 1,000,000 shares. As of May 31, 2017, the remaining authorized shares to be purchased were 1,000,000.

The share purchase authorization in place for the month ended June 30, 2017 had purchase limitations on the (4) number of shares of up to 1,000,000 shares. As of June 30, 2017, the remaining authorized shares to be purchased were 1,000,000.

The timing and expiration date of the current stock repurchase authorizations are included in Note 10, "Stockholders' Equity" to our unaudited condensed consolidated financial statements included elsewhere in this report.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

- 10.1 Amendment No. 1 to Amended and Restated Employment Agreement effective June 8, 2017, by and between ePlus inc. and Mark P. Marron, (Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 13, 2017).
- 10.2 Amendment No. 1 to Amended and Restated Employment Agreement effective June 8, 2017, by and between ePlus inc. and Elaine D. Marion, (Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on June 13, 2017).
- 31.1 Certification of the Chief Executive Officer of ePlus inc. pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a).
- 31.2 Certification of the Chief Financial Officer of ePlus inc. pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a).
- 32 Certification of the Chief Executive Officer and Chief Financial Officer of ePlus inc. pursuant to 18 U.S.C. § 1350.
- 101.INS XBRL Instance Document
- 101.SCHXBRL Taxonomy Extension Schema Document
- 101.CALXBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LABXBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

SIGNATURES

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

ePlus inc.

Date: August 2, 2017 /s/ MARK P. MARRON

By: Mark P. Marron,
Chief Executive Officer and
President
(Principal Executive Officer)

Date: August 2, 2017 /s/ ELAINE D. MARION

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