EPLUS INC
Form 10-Q
February 18, 2009

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

FORM 10-Q

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

For the quarterly period ended December 31, 2008

OR

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

For the transition period from____ to ____ .

Commission file 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 T No £

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

Large accelerated filer £	Accelerated filer £
Non-accelerated filer £ (Do not check if a smaller reporting company)	Smaller reporting company T

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

The number of shares of common stock outstanding as of January 30, 2009 was 8,033,217.

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ePlus inc. AND SUBSIDIARIES

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Cautionary Language About 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, and are made in reliance upon the protections provided by such acts for forward-looking statements. Such statements are not based on historical fact, but are based upon numerous assumptions about future conditions that may not occur. Forward-looking statements are generally identifiable by use of forward-looking words such as “may,” “should,” “intend,” “estimate,” “believe,” “expect,” “anticipate,” “project” and simila 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 the Company, speak only as of the date hereof, and are subject to certain risks and uncertainties. We do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur, or of which we hereafter become aware. Actual events, transactions and results may materially differ from the anticipated events, transactions or results described in such statements. Our ability to consummate such transactions and achieve such events or results is subject to certain risks and uncertainties. Such risks and uncertainties include, but are not limited to, the matters set forth below:

- we have been offering our comprehensive set of solutions—the bundling of our direct IT sales, professional services and financing with our proprietary software since 2002, and may encounter some of the challenges, risks, difficulties and uncertainties frequently faced by companies providing new and/or bundled solutions in an evolving market, such as:
  - managing a diverse product set of solutions in highly competitive markets;
  - increasing the total number of customers utilizing bundled solutions by up-selling within our customer base and gaining new customers;
  - adapting to meet changes in markets and competitive developments;
  - maintaining and increasing advanced professional services by retaining highly skilled personnel and vendor certifications;
  - integrating with external IT systems, including those of our customers and vendors; and
  - continuing to update our software and technology to enhance the features and functionality of our products.
- our ability to hire and retain sufficient personnel;
- a decrease in the capital spending budgets of our customers;
- our ability to protect our intellectual property;
- the creditworthiness of our customers;
- our ability to raise capital and obtain non-recourse financing for our transactions;
- our ability to realize our investment in leased equipment;
- our ability to reserve adequately for credit losses; and
- significant changes in, reductions in, or losses of relationships with major customers or vendors.

We cannot be certain that our business strategy will be successful or that we will successfully address these and other challenges, risks and uncertainties. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections contained elsewhere in this report, as well as our Annual Report on Form 10-K for the fiscal year ended March 31, 2008, any subsequent Reports on Form 10-Q and Form 8-K, and other filings with the SEC.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	As of December 31, 2008	As of March 31, 2008
ASSETS	(in thousands)	
Cash and cash equivalents	$ 86,551	$ 58,423
Accounts receivable—net	99,672	109,706
Notes receivable	3,007	726
Inventories—net	6,717	9,192
Investment in leases and leased equipment—net	133,767	157,382
Property and equipment—net	3,702	4,680
Other assets	17,747	13,514
Goodwill	21,601	26,125
TOTAL ASSETS	$ 372,764	$ 379,748
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable—equipment	$ 4,434	$ 6,744
Accounts payable—trade	13,545	22,016
Accounts payable—floor plan	58,151	55,634
Salaries and commissions payable	5,077	4,789
Accrued expenses and other liabilities	29,503	30,372
Income taxes payable	25	-
Recourse notes payable	102	-
Non-recourse notes payable	85,076	93,814
Deferred tax liability	2,739	2,677
Total Liabilities	198,652	216,046
COMMITMENTS AND CONTINGENCIES (Note 7)		
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value; 2,000,000 shares authorized; none issued or outstanding	-	-
Common stock, $.01 par value; 25,000,000 shares authorized; 11,370,056 issued and 8,088,193 outstanding at December 31, 2008 and 11,210,731 issued and 8,231,741 outstanding at March 31, 2008	114	112
Additional paid-in capital	78,937	77,287
Treasury stock, at cost, 3,281,863 and 2,978,990 shares, respectively	(35,806)	(32,884)

Retained earnings		130,698		118,623
Accumulated other comprehensive income—foreign currency translation adjustment		169		564
Total Stockholders' Equity		174,112		163,702
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	372,764	$	379,748

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
	(amounts in thousands, except per share data)			
Sales of product and services	$ 171,557	$ 168,394	$ 516,807	$ 564,628
Sales of leased equipment	-	13,740	3,447	40,544
	171,557	182,134	520,254	605,172
Lease revenues	10,361	12,194	34,197	43,810
Fee and other income	2,806	4,111	9,417	13,124
	13,167	16,305	43,614	56,934
TOTAL REVENUES	184,724	198,439	563,868	662,106
COSTS AND EXPENSES				
Cost of sales, product and services	146,224	148,802	444,355	500,202
Cost of leased equipment	-	13,308	3,260	38,919
	146,224	162,110	447,615	539,121
Direct lease costs	3,636	4,460	11,263	16,353
Professional and other fees	1,577	2,479	5,930	9,650
Salaries and benefits	19,573	17,069	57,709	53,971
General and administrative expenses	4,307	3,760	11,896	12,135
Impairment of Goodwill	4,644	-	4,644	-
Interest and financing costs	1,355	1,818	4,307	6,590
	35,092	29,586	95,749	98,699
TOTAL COSTS AND EXPENSES (1)(2)	181,316	191,696	543,364	637,820
EARNINGS BEFORE PROVISION FOR INCOME TAXES	3,408	6,743	20,504	24,286
PROVISION FOR INCOME TAXES	1,446	2,992	8,429	10,671
NET EARNINGS	$ 1,962	$ 3,751	$ 12,075	$ 13,615
	$ 0.24	$ 0.45	$ 1.46	$ 1.65

NET EARNINGS PER COMMON SHARE—BASIC				
NET EARNINGS PER COMMON SHARE—DILUTED	$ 0.24	$ 0.45	$ 1.42	$ 1.63
WEIGHTED AVERAGE SHARES OUTSTANDING—BASIC	8,264,115	8,231,741	8,271,616	8,231,741
WEIGHTED AVERAGE SHARES OUTSTANDING—DILUTED	8,404,352	8,422,256	8,518,419	8,375,412

(1) Includes amounts to related parties of $277 thousand and $274 thousand for the three months ended December 31, 2008 and December 31, 2007, respectively.

(2) Includes amounts to related parties of $833 thousand and $798 thousand for the nine months ended December 31, 2008 and December 31, 2007, respectively.

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended December 31, 2008	2007
	(in thousands)	
Cash Flows From Operating Activities:		
Net earnings	$ 12,075	$ 13,615
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	11,847	17,161
Impairment of goodwill	4,644	-
Reserves for credit losses and sales returns	560	(246)
Provision for inventory allowances and inventory returns	341	65
Share-based compensation expense	114	1,562
Excess tax benefit from exercise of stock options	(28)	-
Tax benefit of stock options exercised	164	-
Deferred taxes	62	(251)
Payments from lessees directly to lenders—operating leases	(7,022)	(10,754)
Loss on disposal of property and equipment	16	4
Gain on sale of operating leases	-	(403)
Gain on sale or disposal of operating lease equipment	(1,035)	(1,078)
Excess increase in cash value of officers' life insurance	(52)	(30)
Changes in:		
Accounts receivable—net	9,636	1,071
Notes receivable	(2,280)	51
Inventories—net	2,134	(1,090)
Investment in direct financing and sale-type leases—net	(18,053)	(2,926)
Other assets	(3,784)	(2,241)
Accounts payable—equipment	(1,973)	797
Accounts payable—trade	(8,463)	5,233
Salaries and commissions payable, accrued expenses and other liabilities	(584)	3,912
Net cash (used in) provided by operating activities	(1,681)	24,452
Cash Flows From Investing Activities:		
Proceeds from sale or disposal of operating lease equipment	2,907	4,293
Purchases of operating lease equipment	(2,675)	(7,039)
Purchases of property and equipment	(622)	(1,315)
Premiums paid on officers' life insurance	(236)	(238)
Cash used in acquisition, net of cash acquired	(364)	-
Net cash used in investing activities	(990)	(4,299)

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - continued
(UNAUDITED)

	Nine Months Ended December 31,			
	2008		2007	
Cash Flows From Financing Activities:	(in thousands)			
Non-recourse borrowings		34,896		35,792
Non-recourse repayments		(4,801)		(21,491)
Repurchase of common stock		(2,922)		-
Proceeds from issuance of capital stock, net of expenses		1,374		-
Excess tax benefit from exercise of stock options		28		-
Net borrowings (repayments) on floor plan facility		2,517		(3,852)
Net proceeds (repayments) on recourse lines of credit		102		(5,000)
Net cash provided by financing activities		31,194		5,449
Effect of Exchange Rate Changes on Cash		(395)		308
Net Increase in Cash and Cash Equivalents		28,128		25,910
Cash and Cash Equivalents, Beginning of Period		58,423		39,680
Cash and Cash Equivalents, End of Period	$	86,551	$	65,590
Supplemental Disclosures of Cash Flow Information:				
Cash paid for interest	$	322	$	1,020
Cash paid for income taxes	$	7,846	$	6,692
Schedule of Non-Cash Investing and Financing Activities:				
Purchase of property and equipment included in accounts payable	$	38	$	151
Purchase of operating lease equipment included in accounts payable	$	32	$	-
Principal payments from lessees directly to lenders	$	38,838	$	46,296
Repayment of non-recourse debt to lenders from sales of operating leases	$	-	$	11,400

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

These interim financial statements should be read in conjunction with our Consolidated Financial Statements and Notes thereto contained in our Annual Report on Form 10-K for the year ended March 31, 2008. Operating results for the interim periods are not necessarily indicative of results for an entire year.

PRINCIPLES OF CONSOLIDATION — 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.

REVENUE RECOGNITION — The majority of our revenues is derived from three sources: sales of products and services, lease revenues and sales of our software. Our revenue recognition policies vary based upon these revenue sources.

Revenue from Technology Sales Transactions

We adhere to guidelines and principles of sales recognition described in Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" ("SAB No. 104"), issued by the staff of the SEC. Under SAB No. 104, sales are recognized when the title and risk of loss are passed to the customer, there is persuasive evidence of an arrangement for sale, delivery has occurred and/or services have been rendered, the sales price is fixed or determinable and collectability is reasonably assured. Using these tests, the vast majority of our product sales are recognized upon delivery.

We also sell services that are performed in conjunction with product sales, and recognize revenue for these sales in accordance with Emerging Issues Task Force ("EITF") 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Accordingly, we recognize sales from delivered items only when the delivered item(s) has value to the client on a stand alone basis, there is objective and reliable evidence of the fair value of the undelivered item(s), and delivery of the undelivered item(s) is probable and substantially under our control. For most of the arrangements with multiple deliverables (hardware and services), we generally cannot establish reliable evidence of the fair value of the undelivered items. Therefore, the majority of revenue from these services, and hardware sold in conjunction with those services, is recognized when the service is complete and we have received an acceptance certificate. However, in some cases, we do not receive an acceptance certificate and we determine the completion date based upon our records.

We also sell certain third-party service contracts and software assurance or subscription products for which we evaluate whether the subsequent sales of such services should be recorded as gross sales or net sales in accordance with the sales recognition criteria outlined in SAB No. 104, EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," and Financial Accounting Standards Board ("FASB") Technical Bulletin 90-1, "Accounting for Separately Priced Extended Warranty and Product Contracts." We must determine whether we act as a principal in the transaction and assume the risks and rewards of ownership or if we are simply acting as an agent or broker. Under gross sales recognition, the entire selling price is recorded in sales of product and services and our costs to the third-party service provider or vendor is recorded in cost of sales, product and services on the accompanying Unaudited Condensed Consolidated Statements of Operations. Under net sales recognition, the cost to the third-party service provider or vendor is recorded as a reduction to sales resulting in net sales equal to the gross profit on the transaction and there is no cost of sales. In accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs," we record freight billed to our customers as sales of product and services and the related freight costs as cost of sales, product and services on the accompanying Unaudited Condensed Consolidated Statements of Operations.

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Revenue from Leasing Transactions

Our leasing revenues are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 13, "Accounting for Leases." The accounting for revenue is different depending on the type of lease. Each lease is classified as either a direct financing lease, sales-type lease, or operating lease, as appropriate. If a lease meets one or more of the following four criteria, the lease is classified as either a sales-type or direct financing lease; otherwise, it will be classified as an operating lease:

- the lease transfers ownership of the property to the lessee by the end of the lease term;
- the lease contains a bargain purchase option;
- the lease term is equal to 75 percent or more of the estimated economic life of the leased property; or
- the present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90 percent of the fair value of the leased property at the inception of the lease.

For direct financing and sales-type leases, we record the net investment in leases, which consists of the sum of the minimum lease payments, initial direct costs (direct financing leases only), and unguaranteed residual value (gross investment) less the unearned income. For direct financing leases, the difference between the gross investment and the cost of the leased equipment is recorded as unearned income at the inception of the lease. Under sales-type leases, the difference between the fair value and cost of the leased property plus initial direct costs (net margins) is recorded as unearned revenue at the inception of the lease. Revenue for both sales-type and direct financing leases are recognized as the unearned income is amortized over the life of the lease using the interest method. For operating leases, rental amounts are accrued on a straight-line basis over the lease term and are recognized as lease revenue.

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

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

SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 140"), establishes criteria for determining whether a transfer of financial assets in exchange for cash or other consideration should be accounted for as a sale or as a pledge of collateral in a secured borrowing. Certain assignments of direct-finance leases we make on a non-recourse basis meet the criteria for surrender of control set forth by SFAS No. 140 and have therefore been treated as sales for financial statement purposes. We assign all rights, title, and interests in a number of our leases to third-party financial institutions without recourse. These assignments are recorded as sales because we have completed our obligations as of the assignment date, and we retain no ownership interest in the equipment under lease.

Revenue from Software Sales Transactions

We derive revenue from licensing our proprietary software for a fixed term or for perpetuity in an enterprise license. In addition, we receive revenues from hosting our proprietary software for our clients. Revenue from hosting arrangements is recognized in accordance with EITF 00-3, "Application of AICPA Statement of Position 97-2 to

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

Revenue from sales of our software is recognized in accordance with SOP 97-2, as amended by SOP 98-4, “Deferral of the Effective Date of a Provision of SOP 97-2,” and SOP 98-9, “Modification of SOP 97-2 With Respect to Certain Transactions.” We recognize revenue when all the following criteria exist:

- there is persuasive evidence that an arrangement exists;
- delivery has occurred;
- no significant obligations by us related to services essential to the functionality of the software remain with regard to implementation;
- the sales price is determinable; and
- it is probable that collection will occur.

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Revenue from sales of our software is included in fee and other income on our Unaudited Condensed Consolidated Statements of Operations.

Our software agreements often include implementation and consulting services that are sold separately under consulting engagement contracts or as part of the software license arrangement. When we determine that such services are not essential to the functionality of the licensed software and qualify as “service transactions” under SOP 97-2, we record revenue separately for the license and service elements of these agreements.

Generally, we consider that a service is not essential to the functionality of the software based on various factors, including if the services may be provided by independent third parties experienced in providing such consulting and implementation in coordination with dedicated customer personnel. When consulting qualifies for separate accounting, consulting revenues under time and materials billing arrangements are recognized as the services are performed. Consulting revenues under fixed-price contracts are generally recognized using the percentage-of-completion method. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is sufficiently resolved. Consulting revenues are classified as fee and other income on our Unaudited Condensed Consolidated Statements of Operations.

If a service arrangement is essential to the functionality of the licensed software and therefore does not qualify for separate accounting of the license and service elements, then license revenue is recognized together with the consulting services using either the percentage-of-completion or completed-contract method of contract accounting. Under the percentage-of-completion method, we may estimate the stage of completion of contracts with fixed or “not to exceed” fees based on hours or costs incurred to date as compared with estimated total project hours or costs at completion. If we do not have a sufficient basis to measure progress towards completion, revenue is recognized upon completion of the contract. When total cost estimates exceed revenues, we accrue for the estimated losses immediately. The use of the percentage-of-completion method of accounting requires significant judgment relative to estimating total contract costs, including assumptions relative to the length of time to complete the project, the nature and complexity of the work to be performed, and anticipated changes in salaries and other costs. When adjustments in estimated contract costs are determined, such revisions may have the effect of adjusting, in the current period, the earnings applicable to performance in prior periods.

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

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

Operations.

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Revenue from Other Transactions

Other sources of revenue are derived from: (1) income from events that occur after the initial sale of a financial asset; (2) remarketing fees; (3) brokerage fees earned for the placement of financing transactions; (4) agent fees received from various manufacturers in the IT reseller business unit; (5) settlement fees related to disputes or litigation; and (6) interest and other miscellaneous income. These revenues are included in fee and other income on our Unaudited Condensed Consolidated Statements of Operations.

VENDOR CONSIDERATION — We receive payments and credits from vendors, including consideration pursuant to volume sales incentive programs, volume purchase incentive programs and shared marketing expense programs. Vendor consideration received pursuant to volume sales incentive programs is recognized as a reduction to costs of sales, product and services on the accompanying Unaudited Condensed Consolidated Statements of Operations in accordance with EITF Issue No. 02-16, “Accounting for Consideration Received from a Vendor by a Customer (Including a Reseller of the Vendor’s Products).” Vendor consideration received pursuant to volume purchase incentive programs is allocated to inventories based on the applicable incentives from each vendor and is recorded in cost of sales, product and services, as the inventory is sold. Vendor consideration received pursuant to shared marketing expense programs is recorded as a reduction of the related selling and administrative expenses in the period the program takes place only if the consideration represents a reimbursement of specific, incremental, identifiable costs. Consideration that exceeds the specific, incremental, identifiable costs is classified as a reduction of cost of sales, product and services on the accompanying Unaudited Condensed Consolidated Statements of Operations.

RESIDUALS — Residual values, representing the estimated value of equipment at the termination of a lease, are recorded on our Unaudited Condensed Consolidated Financial Statements at the inception of each sales-type or direct financing lease as amounts estimated by management based upon its experience and judgment. The estimated residual values will vary, both in amount and as a percentage of the original equipment cost, and depend upon several factors, including the equipment type, manufacturer's discount, market conditions and the term of the lease. Unguaranteed residual values for sales-type and direct financing leases are recorded at their net present value and the unearned income is amortized over the life of the lease using the interest method. The residual values for operating leases are included in the leased equipment’s net book value.

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

RESERVES FOR CREDIT LOSSES —The reserve for credit losses (the “Reserve”) is maintained at a level believed by management to be adequate to absorb potential losses inherent in our lease and accounts receivable portfolio. Management’s determination of the adequacy of the Reserve is based on an evaluation of historical credit loss experience, current economic conditions, volume, growth, the composition of the lease portfolio, and other relevant factors. The Reserve is increased by provisions for potential credit losses charged against income. Accounts are either written off or written down when the loss is both probable and determinable, after giving consideration to the customer’s financial condition, the value of the underlying collateral and funding status (i.e., not funded or funded on a recourse or partial recourse basis, or funded on a non-recourse basis).

Sales are reported net of returns and allowances. Allowance for sales returns is maintained at a level believed by management to be adequate to absorb potential sales returns from product and services in accordance with SFAS No. 48,“Revenue Recognition when the Right of Return Exists” (“SFAS No. 48”). Management's determination of the adequacy of the reserve is based on an evaluation of historical sales returns, current economic conditions, volume and other relevant factors. These determinations require considerable judgment in assessing the ultimate potential for sales returns and include consideration of the type and volume of products and services sold.

CASH AND CASH EQUIVALENTS — We consider all highly liquid investments, including those with an original maturity of three months or less, to be cash equivalents. Cash and cash equivalents consist primarily of interest-bearing accounts and money market account that consist of short-term U.S. treasury securities with original maturities less than or equal to 90 days. Interest income on these short-term investments is recognized when earned. There are no restrictions on the withdrawal of funds from our money market account.

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INVENTORIES — Inventories are stated at the lower of cost (weighted average basis) or market and are shown net of allowance for obsolescence.

PROPERTY AND EQUIPMENT — Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, which range from three to ten years. Hardware is depreciated over three years. Software is depreciated over five years. Furniture and certain fixtures are depreciated over five to ten years. Telephone equipment is depreciated over seven years.

CAPITALIZATION OF COSTS OF SOFTWARE FOR INTERNAL USE — We have capitalized certain costs for the development of internal use software under the guidelines of SOP 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.” Software capitalized for internal use was $34 thousand and $761 thousand during the nine months ended December 31, 2008 and 2007, respectively, which is included on the accompanying Unaudited Condensed Consolidated Balance Sheets as a component of property and equipment—net. We had capitalized costs, net of amortization, of approximately $1.0 million at December 31, 2008 and $1.2 million at March 31, 2008.

CAPITALIZATION OF COSTS OF SOFTWARE TO BE MADE AVAILABLE TO CUSTOMERS — In accordance with SFAS No. 86, “Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed,” software development costs are expensed as incurred until technological feasibility has been established. At such time such costs are capitalized until the product is made available for release to customers. For the nine months ended December 31, 2008 and 2007, no such costs were capitalized. We had $445 thousand and $572 thousand of capitalized costs, net of amortization, at December 31, 2008 and March 31, 2008, respectively.

GOODWILL AND INTANGIBLE ASSETS — We record, as goodwill, the excess of purchase price over the fair value of the identifiable net assets acquired in a purchase transaction. In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets,” (“SFAS No. 142”) we perform an annual impairment test for goodwill during the third quarter of our fiscal year, or when events or circumstances indicate there might be impairment, and follow the two-step process prescribed in SFAS No. 142. The first step is to screen for potential impairment, while the second step measures the amount of the impairment, if any. Intangible assets with finite lives are amortized over the estimated useful lives using the straight-line method. An impairment loss on such assets is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value.

Application of the goodwill impairment test requires judgment, including the determination of the fair value of each reporting unit. We have two operating segments and four reporting units: leasing, technology, software document management and software procurement. In determining potential impairment, we estimate the market value of each of the four reporting units using the best information available to us. We employ the discounted cash flow method and the guideline company method. The discounted cash flow method takes into account management’s best projections of revenue and profitability and the weighted average cost of capital. The guideline company method compares the earnings multiples from publicly traded companies with similar operating characteristics as the reporting units. We then compare the fair value of each reporting unit to its carrying value to determine if there is an impairment of goodwill.

The estimates and judgments that most significantly affect the fair value calculation are assumptions related to estimates of economic and market conditions over the projected period, including growth rates in sales, costs, estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures and changes in future working capital requirements. During our annual impairment test for goodwill, we recognized an impairment of goodwill for our software procurement reporting unit, which is part of our technology sales business segment. See

Note 3, “Impairment of Goodwill,” for more information on the impairment charges taken.

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

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FAIR VALUE MEASUREMENT— We adopted SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”), as amended, on April 1, 2008. SFAS No. 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. In February 2008, the FASB released an FASB Staff Position (FSP FAS 157-2—Effective Date of FASB Statement No. 157) which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. The partial adoption of SFAS No. 157 for financial assets and liabilities did not have a material impact on our consolidated financial position, results of operations or cash flows. We are currently analyzing the impact, if any, of adopting SFAS No. 157 for nonfinancial assets and liabilities.

SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. FASB Staff Position (“FSP”) No. 157-3, “Determining the Fair Value of an Asset When the Market For that Asset is not Active,” clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 - Observable inputs such as quoted prices in active markets;
- Level 2 - Inputs other than the quoted prices in active markets that are observable either directly or indirectly; and
- Level 3 - Unobservable inputs in which there is little or no market data, which require us to develop our own assumptions.

This hierarchy requires us to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, we measure certain financial assets and liabilities at fair value.

We adopted SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115” (“SFAS No. 159”), on April 1, 2008. SFAS No. 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. The objective of SFAS No. 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Under SFAS No. 159, a company may elect to use fair value to measure eligible items at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected, in earnings, at each subsequent reporting date. Eligible items include, but are not limited to, accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and firm commitments. Currently, we have not expanded our eligible items subject to the fair value option under SFAS No. 159.

For the financial instruments that are not accounted for under SFAS 157, which consist primarily of cash and cash equivalents, short-term government debt instruments, accounts receivables, accounts payable and accrued expenses and other liabilities, we consider the recorded value of the financial instruments to approximate the fair value due to their short maturities. The carrying amounts of our non-recourse and recourse notes payable approximates their fair values. We determined the fair value of notes payable by applying the average portfolio debt rate and applying such rate to future cash flows of the respective financial instruments. The average portfolio debt rate is a weighted average of all individual discount rates associated with each lease. The discount rate for each lease is an agreed upon rate between two unrelated parties – either between the lender and us or between the lessee and the lender. We are using Level 2 inputs in determining the fair value of our recourse and non-recourse notes payable. The estimated fair value and carrying amount of our total notes payable at December 31, 2008 was $84.7 million and $85.2 million, respectively, and at March 31, 2008, they were $93.3 million and $93.8 million, respectively. As the fair value approximates the carry costs of these notes payable, we report them at carrying costs on our Unaudited Condensed Consolidated Balance Sheet. We do not have any other balance sheet items carried at fair value on a recurring basis.

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As of December 31, 2008 and March 31, 2008, fair values of recourse and non-recourse notes payable are as follows (in thousands):

	Fair Value Measurement Using			
	Level 1 input	Level 2 input	Level 3 input	As of December 31, 2008
Recourse notes payable	$ -	$ 102	$ -	$ 102
Non-recourse notes payable	-	84,619	-	84,619
	$ -	$ 84,721	$ -	$ 84,721

	Fair Value Measurement Using			
	Level 1 input	Level 2 input	Level 3 input	As of March 31, 2008
Recourse notes payable	$ -	$ -	$ -	$ -
Non-recourse notes payable	-	93,297	-	93,297
	$ -	$ 93,297	$ -	$ 93,297

TREASURY STOCK — We account for treasury stock under the cost method and include treasury stock as a component of stockholders' equity on the accompanying Unaudited Condensed Consolidated Balance Sheet. See Note 9, "Stock Repurchase," for additional information.

INCOME TAXES — Deferred income taxes are accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred income tax assets and liabilities are determined based on the temporary differences between the financial statement reporting and tax bases of assets and liabilities, using tax rates currently in effect. Future tax benefits, such as net operating loss carryforwards, are recognized to the extent that realization of these benefits is considered to be more likely than not. We review our deferred tax assets at least annually and make necessary valuation adjustments.

In addition, on April 1, 2007, we adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109" ("FIN 48"). Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. In accordance with our accounting policy, we recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. This policy did not change as a result of the adoption of FIN 48. We have recorded a cumulative effect adjustment to reduce our fiscal 2008 balance of beginning retained earnings by $491 thousand on our Unaudited Condensed Consolidated Financial Statements.

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

COMPREHENSIVE INCOME — Comprehensive income consists of net income and foreign currency translation adjustments. For the nine months ended December 31, 2008, other comprehensive loss was $395 thousand, and net income was $12.1 million, resulting in total comprehensive income of $11.7 million. For the nine months ended December 31, 2007, other comprehensive income was $308 thousand and net income was $13.6 million, resulting in total comprehensive income of $13.9 million.

EARNINGS PER SHARE — Earnings per share ("EPS") have been calculated in accordance with SFAS No. 128, "Earnings per Share"("SFAS No. 128"). In accordance with SFAS No. 128, basic EPS amounts were calculated based on weighted average shares outstanding of 8,264,115 and 8,271,616 for the three and nine months ended December 31, 2008, respectively, and 8,231,741 for both the three and nine months ended December 31, 2007. Diluted EPS amounts were calculated based on weighted average shares outstanding and potentially dilutive common stock equivalents of 8,404,352 and 8,518,419 for the three and nine months ended December 31, 2008, respectively, and 8,422,256 and 8,375,412 for the three and nine months ended December 31, 2007. Additional shares included in the diluted EPS calculations are attributable to incremental shares issuable upon the assumed exercise of stock options and other common stock equivalents.

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SHARE-BASED COMPENSATION — We currently have two equity incentive plans which provide us with the opportunity to compensate directors and selected employees with stock options, restricted stock and restricted stock units. A stock option entitles the recipient to purchase shares of common stock from us at the specified exercise price. Restricted stock and restricted stock units (“RSUs”) entitle the recipient to obtain stock or stock units, which vest over a set period of time. RSUs are granted at no cost to the employee and employees do not need to pay an exercise price to obtain the underlying common stock. All grants or awards made under the Plans are governed by written agreements between us and the participants. We also have options outstanding under three previous incentive plans, under which we no longer grant awards.

We account for share-based compensation under the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment." We use the Black-Scholes option-pricing model to value all options and the straight-line method to amortize this fair value as compensation cost over the requisite service period.

Total share-based compensation expense, which includes expense recognized for the grants of options and restricted stock for our employees and non-employee directors, was $53 thousand and $31 thousand for the three months ended December 31, 2008 and 2007, respectively. Total share-based compensation expense for the nine months ended December 31, 2008 and 2007, was $115 thousand and $1.6 million, respectively. As previously disclosed, during the nine months ended December 31, 2007, 450,000 options were cancelled which resulted in the recognition of the remaining nonvested share-based compensation expense of $1.5 million for that period. At December 31, 2008, there was no unrecognized compensation expense related to nonvested options since all options were vested. Unrecognized compensation expense related to restricted stock was $364 thousand at December 31, 2008, which will be fully recognized over the next 21 months.

RECENT ACCOUNTING PRONOUNCEMENTS — In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141R”), which replaces SFAS 141. SFAS No. 141R applies to all transactions in which an entity obtains control of one or more businesses, including those without the transfer of consideration. SFAS No. 141R defines the acquirer as the entity that obtains control on the acquisition date. It also requires the measurement at fair value of the acquired assets, assumed liabilities and noncontrolling interest. In addition, SFAS No. 141R requires that the acquisition and restructuring related costs be recognized separately from the business combinations. SFAS No. 141R requires that goodwill be recognized as of the acquisition date, measured as residual, which in most cases will result in the excess of consideration plus acquisition-date fair value of noncontrolling interest over the fair values of identifiable net assets. Under SFAS No. 141R, “negative goodwill,” in which consideration given is less than the acquisition-date fair value of identifiable net assets, will be recognized as a gain to the acquirer. SFAS No. 141R is applied prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after December 15, 2008. We are evaluating the impact of SFAS No. 141R, if any, to our financial position and statement of operations. We will adopt SFAS No. 141R for future business combinations that occur on or after April 1, 2009.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). We do not expect this provision to have any material impact on our financial position or results of operations. SFAS No. 162 is effective November 15, 2008.

In April 2008, the FASB issued Staff Position (“FSP”) No. 142-3, "Determination of the Useful Life of Intangible Assets." FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. The provisions of FSP No. 142-3 are effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. We are in the process of evaluating the impact, if any, that FSP No. 142-3 will have on our consolidated financial statements.

In October 2008, the FASB issued FSP No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active." FSP No. 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The provisions of FSP No. 157-3 were effective upon issuance and for financial statements not yet reported. The adoption of FSP No. 157-3 did not have a material impact on our consolidated financial statements.

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2. INVESTMENT IN LEASES AND LEASED EQUIPMENT—NET

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

	As of	
	December 31, 2008	March 31, 2008
	(in thousands)	
Investment in direct financing and sales-type leases—net	$ 109,382	$ 124,254
Investment in operating lease equipment—net	24,385	33,128
	$ 133,767	$ 157,382

INVESTMENT IN DIRECT FINANCING AND SALES-TYPE LEASES—NET

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

	As of	
	December 31, 2008	March 31, 2008
	(in thousands)	
Minimum lease payments	$ 106,615	$ 120,224
Estimated unguaranteed residual value (1)	13,898	17,831
Initial direct costs, net of amortization (2)	1,013	1,122
Less: Unearned lease income	(10,544)	(13,568)
Reserve for credit losses	(1,600)	(1,355)
Investment in direct financing and sales-type leases—net	$ 109,382	$ 124,254

(1) Includes estimated unguaranteed residual values of $1,633 thousand and $2,315 thousand as of December 31, 2008 and March 31, 2008, respectively, for direct-financing leases accounted for under SFAS No. 140.

(2) Initial direct costs are shown net of amortization of $1,173 thousand and $1,536 thousand as of December 31, 2008 and March 31, 2008, respectively.

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

INVESTMENT IN OPERATING LEASE EQUIPMENT—NET

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

	As of	
	December 31, 2008	March 31, 2008
	(in thousands)	
Cost of equipment under operating leases	$ 55,200	$ 62,311
Less: Accumulated depreciation and amortization	(30,815)	(29,183)
Investment in operating lease equipment—net (1)	$ 24,385	$ 33,128

(1) Includes estimated unguaranteed residual values of $11,804 thousand and $17,699 thousand as of December 31, 2008 and March 31, 2008, respectively, for operating leases.

During the nine months ended December 31, 2008 and 2007, we sold portions of our lease portfolio. The sales were reflected on our Unaudited Condensed Consolidated Financial Statements as sales of leased equipment totaling approximately $3.4 million and $40.5 million, and cost of leased equipment of $3.3 million and $38.9 million for the nine months ended December 31, 2008 and 2007, respectively. There was a corresponding reduction of investment in leases and lease equipment—net of $3.3 million and $38.9 million at December 31, 2008 and 2007, respectively.

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3. IMPAIRMENT OF GOODWILL

We completed our annual goodwill impairment test during the third quarter of our fiscal year. We concluded that there was no impairment in our leasing, technology and software document management reporting units. The weakening U.S. economy and the global credit crisis have accelerated the reduction in demand for certain software products. As a result of this reduced demand, we projected a decline in revenue in our software procurement reporting unit, which lowered the fair value estimates of the reporting unit. As a result of the lower fair value estimates, we concluded that the carrying amounts of the software procurement reporting unit exceeded its respective fair value. We then compared the implied fair value of the goodwill in the software procurement reporting unit with the carrying value and recorded a $4.6 million impairment charge in the three months ended December 31, 2008. This amount is reported on our Unaudited Condensed Consolidated Statement of Operations. As of December 31, 2008, the total goodwill was $21.6 million, and is reported on our Unaudited Condensed Consolidated Balance Sheets. A reconciliation of the carrying amount of goodwill by reporting unit is as follows (in thousands):

	Financing Business Segment	Technology Sales Business Segment			
	Leasing	Technology	Software Procurement	Software Document Management	Total
Balance April 1, 2008	$ 4,029	$ 16,483	$ 4,644	$ 1,089	$ 26,245
Impairment of goodwill	-	-	(4,644)	-	(4,644)
Balance December 31, 2008	$ 4,029	$ 16,483	$ -	$ 1,089	$ 21,601

We will continue to monitor the market, our operational performance and general economic conditions. A downward trend in one or more of these factors could cause us to reduce the estimated fair value of our reporting units and recognize a future corresponding impairment of our goodwill.

4. RESERVES FOR CREDIT LOSSES

As of March 31, 2008 and December 31, 2008, our activity in our reserves for credit losses is as follows (in thousands):

	Accounts Receivable	Lease-Related Assets	Total
Balance April 1, 2007	$ 2,060	$ 1,641	$ 3,701
Provision for Bad Debts	55	(245)	(190)
Recoveries	40	-	40
Write-offs and other	(453)	(41)	(494)
Balance March 31, 2008	1,702	1,355	3,057
Provision for Bad Debts	115	503	618
Recoveries	58	-	58
Write-offs and other	(120)	(258)	(378)

Balance December 31, 2008	$	1,755	$	1,600	$	3,355

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5. RECOURSE AND NON-RECOURSE NOTES PAYABLE

As of December 31, 2008 and March 31, 2008, recourse and non-recourse obligations consisted of the following:

	As of			
	December 31, 2008		March 31, 2008	
	(in thousands)			
First Bank of Highland Park recourse note payable at 5.5% expires on April 1, 2011 or when the early termination option is enacted.	$	102	$	-
Non-recourse equipment notes secured by related investments in leases with interest rates ranging from 4.34% to 8.76% for the nine months ended December 31, 2008 and 4.02% to 10.77% for year ended March 31, 2008.	$	85,076	$	93,814

During the nine months ended December 31, 2008 and 2007, we sold portions of our lease portfolio. The sales were reflected on our Unaudited Condensed Consolidated Financial Statements as sales of leased equipment totaling approximately $3.4 million and $40.5 million, and cost of leased equipment of $3.3 million and $38.9 million, for the nine months ended December 31, 2008 and 2007, respectively. There was a corresponding reduction of investment in leases and lease equipment—net of $3.3 million and $38.9 million at December 31, 2008 and 2007, respectively.

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

Our technology sales business segment, through our subsidiary ePlus Technology, inc., finances its operations with funds generated from operations, and with a credit facility with GE Commercial Distribution Finance Corporation ("GECDF"). This facility provides short-term capital for our reseller business. There are two components of the GECDF credit facility: (1) a floor plan component and (2) an accounts receivable component. Under the floor plan component, we had outstanding balances of $58.2 million and $55.6 million as of December 31, 2008 and March 31, 2008, respectively. Under the accounts receivable component, we had no outstanding balances as of December 31, 2008 and March 31, 2008. As of December 31, 2008, the facility agreement had an aggregate limit of the two components of $125 million, and the accounts receivable component had a sub-limit of $30 million, which bears interest at prime less 0.5%, or 4.75%. Availability under the GECDF 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 total tangible net worth and subordinated debt, and maximum debt to tangible net worth ratio of ePlus Technology, inc. We were in compliance with these covenants as of December 31, 2008. Either party may terminate with 90 days' advance notice.

The facility provided by GECDF requires a guaranty of up to $10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its annual audited financial statements by certain dates. We have delivered the annual audited financial statements for the year ended March 31, 2008 as required. The loss of the GECDF credit facility could have a material adverse effect on our future results as we currently rely on this facility and its components for daily working capital and liquidity for our technology sales business and as an operational function of our accounts payable process.

National City Bank (a wholly-owned subsidiary of PNC Financial Services Group, Inc.) provides a credit facility which can be used for all ePlus inc.'s subsidiaries. Borrowings under our $35 million line of credit from National City Bank are subject to certain covenants regarding minimum consolidated tangible net worth, maximum recourse debt to net worth ratio, cash flow coverage, and minimum interest expense coverage ratio. We were in compliance with these covenants as of December 31, 2008. The borrowings are secured by our assets such as leases, receivables, inventory, and equipment. Borrowings are limited to our collateral base, consisting of equipment, lease receivables, and other current assets, up to a maximum of $35 million. In addition, the credit agreement restricts, and under some circumstances prohibits, the payment of dividends.

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The National City Bank facility requires the delivery of our audited and unaudited financial statements, and pro-forma financial projections, by certain dates. As required by Section 5.1 of the facility, we have delivered all financial statements. We had no balance on this facility as of December 31, 2008.

6. RELATED PARTY TRANSACTIONS

We lease approximately 55,880 square feet for use as our principal headquarters from Norton Building 1, LLC for a monthly rent payment of approximately $93 thousand. Norton Building 1, LLC is a limited liability company owned in part by the spouse of Mr. Norton, our President and CEO, and in part in trust for his children. Since May 31, 2007, Mr. Norton has not had a managerial or executive role in Norton Building 1, LLC. The lease was approved by the Board of Directors prior to its commencement, and viewed by the Board as being at or below comparable market rents, and ePlus has the right to terminate up to 40% of the leased premises for no penalty, with six months' notice. The current lease will expire on December 31, 2009 with an option to renew for an additional five years. During the three months ended December 31, 2008 and 2007, we paid rent in the amount of $277 thousand and $274 thousand, respectively. During the nine months ended December 31, 2008 and 2007, we paid rent in the amount of $833 thousand and $798 thousand, respectively.

7. COMMITMENTS AND CONTINGENCIES

Liabilities for loss contingencies arising from claims, assessments, litigation and other sources are recorded when it is probable that a liability has been incurred and the amount of the claim, assessment or damages can be reasonably estimated.

Litigation

We have been involved in several matters relating to a customer named Cyberco Holdings, Inc. ("Cyberco"). The Cyberco principals were perpetrating a scam, and at least five principals have pled guilty to criminal conspiracy and/or related charges, including bank fraud, mail fraud and money laundering. One lender who financed our transaction with Cyberco, Banc of America Leasing and Capital, LLC ("BoA"), filed a lawsuit against ePlus inc. in the Circuit Court for Fairfax County, Virginia on November 3, 2006, seeking to enforce a guaranty in which ePlus inc. guaranteed ePlus Group's obligations to BoA relating to the Cyberco transaction. We are vigorously defending this suit. As we do not believe a loss is probable or the amount is reasonably estimable, we have not accrued for this matter.

On January 18, 2007, a stockholder derivative action related to stock option practices was filed in the United States District Court for the District of Columbia. The amended complaint names ePlus inc. as nominal defendant, and personally names eight individual defendants who are directors and/or executive officers of ePlus. The amended complaint alleges violations of federal securities law, and various state law claims such as breach of fiduciary duty, waste of corporate assets and unjust enrichment. We have filed a Motion to Dismiss the plaintiff's amended complaint. The amended complaint seeks monetary damages from individual defendants and that we take certain corrective actions relating to option grants and corporate governance, and attorneys' fees. As we do not believe a loss is probable or the amount is reasonably estimable, we have not accrued for this matter.

We are also engaged in other ordinary and routine litigation incidental to our business. While we cannot predict the outcome of these various legal proceedings, management does not believe that the ultimate resolution will have a material effect on our financial condition or results of operations.

Regulatory and Other Legal Matters

In June 2006, the Audit Committee commenced an investigation of our stock option grants since our initial public offering in 1996. In August 2006, the Audit Committee voluntarily contacted and advised the staff of the SEC of its investigation and the Audit Committee's preliminary conclusion that a restatement would be required. This restatement was included in our Form 10-K for the fiscal year ended March 31, 2006 and was filed with the SEC on August 16, 2007. The SEC opened an informal inquiry and we have and will continue to cooperate with the staff. No amount has been accrued for this matter.

In December 2008 we finalized resolution of a dispute with the government of the District of Columbia ("DC") regarding personal property taxes. DC was seeking payment for property taxes relating to property we financed for our customers. Under the terms of the settlement, we paid $747 thousand to DC reflecting personal property taxes on leased equipment in DC for the years 2001-2008. The settlement agreement assigns to us the right to collect the taxes from our lessees

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8. EARNINGS PER SHARE

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 Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2008 and 2007 (in thousands, except per share data).

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
Net income available to common shareholders—basic and diluted	$ 1,962	$ 3,751	$ 12,075	$ 13,615
Weighted average shares outstanding—basic	8,264	8,232	8,272	8,232
Effect of dilutive shares	140	190	247	143
Weighted average shares outstanding—diluted	$ 8,404	$ 8,422	$ 8,519	$ 8,375