EPLUS INC
Form 10-Q
November 05, 2015

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 September 30, 2015

OR

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

For the transition period from____ to ____ .

Commission file number: 1-34167

ePlus inc.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

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

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

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

The number of shares of common stock outstanding as of October 30, 2015 was 7,482,008

TABLE OF CONTENTS

ePlus inc. AND SUBSIDIARIES

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,” “pos “could,” “believe,” “expect,” “intend,” “plan,” “anticipate,” “project,” and similar expressions. Readers are cautioned not to pl 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:

- uncertainty and volatility in the global economy and financial markets;
- significant adverse changes in, reductions in, or losses of relationships with several of our larger customers or vendors;
- 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 may encounter some of the challenges, risks, difficulties and uncertainties frequently faced by similar companies, such as:
  - managing a diverse product set of solutions in highly competitive markets with a number of key vendors;
  - increasing the total number of customers utilizing integrated solutions by up-selling within our customer base and gaining new customers;
  - adapting to meet changes in markets and competitive developments;
  - maintaining and increasing advanced professional services by retaining highly skilled personnel and vendor certifications;
  - 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;
  - maintain our proprietary software and update our technology infrastructure to remain competitive in the marketplace; and
  - reliance on third parties to perform some of our service obligations;
- 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 any members of our senior management team and/or failure to successfully implement succession plans;
- our dependence on key personnel, 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 our professional and liability insurance policies coverage may be insufficient to cover a claim;
- disruptions in our IT systems and data and audio communication networks;
- our ability to secure our and 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;

Table of Contents

- our ability to realize our investment in leased equipment;
- our ability to successfully 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, and, when appropriate, license required technology;
- exposure to changes in, interpretations of, or enforcement trends in legislation; and
- significant changes in accounting standards including changes to the financial reporting of leases which could impact the demand for our leasing services, or misclassification of products and services we sell resulting in the misapplication of revenue recognition policies.

We cannot be certain that our business strategy will be successful or that we will successfully address these and other challenges, risks and uncertainties. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Item 1A, “Risk Factors” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections contained elsewhere in this report, as well as other reports that we file with the Securities and Exchange Commission (“SEC”).

Table of Contents
PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ePlus inc. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	As of September 30, 2015	As of March 31, 2015
ASSETS	(in thousands, except per share data)	
Current assets:		
Cash and cash equivalents	$62,842	$76,175
Accounts receivable—trade, net	259,089	218,458
Accounts receivable—other, net	31,740	31,345
Inventories—net	18,773	19,835
Financing receivables—net, current	64,268	66,909
Deferred costs	9,087	20,499
Deferred tax assets	3,643	3,643
Other current assets	4,718	7,413
Total current assets	454,160	444,277
Financing receivables and operating leases—net	87,847	76,991
Property, equipment and other assets	8,969	9,480
Goodwill and other intangible assets	39,511	40,798
TOTAL ASSETS	$590,487	$571,546
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current liabilities:		
Accounts payable—equipment	$11,369	$20,330
Accounts payable—trade	46,707	46,090
Accounts payable—floor plan	127,053	99,418
Salaries and commissions payable	13,994	14,860
Deferred revenue	20,665	34,363
Recourse notes payable—current	1,204	889
Non-recourse notes payable—current	28,137	28,560
Other current liabilities	16,476	13,575
Total current liabilities	265,605	258,085
Recourse notes payable—long term	2,815	2,801
Non-recourse notes payable—long term	10,510	24,314
Deferred tax liability—long term	3,271	3,271
Other liabilities	3,277	3,813
TOTAL LIABILITIES	285,478	292,284

COMMITMENTS AND CONTINGENCIES (Note 7)

STOCKHOLDERS' EQUITY

Preferred stock, $.01 per share par value; 2,000 shares authorized; none issued or outstanding	-	-
Common stock, $.01 per share par value; 25,000 shares authorized; 13,237 issued and 7,482 outstanding at September 30, 2015 and 13,114 issued and 7,389 outstanding at March 31, 2015	132	131
Additional paid-in capital	114,934	111,072
Treasury stock, at cost, 5,755 and 5,725 shares at September 30, 2015 and March 31, 2015, respectively	(120,654)	(118,179)
Retained earnings	310,970	286,477
Accumulated other comprehensive income—foreign currency translation adjustment	(373)	(239)
Total Stockholders' Equity	305,009	279,262
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$590,487	$571,546

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands, except per share data)			
Net sales	$336,286	$297,472	$606,152	$569,776
Cost of sales	264,365	233,548	475,101	449,413
Gross profit	71,921	63,924	131,051	120,363
Professional and other fees	1,513	1,577	3,031	3,410
Salaries and benefits	35,740	34,252	70,954	67,199
General and administrative expenses	7,585	7,158	14,364	13,431
Interest and financing costs	422	611	975	1,255
Operating expenses	45,260	43,598	89,324	85,295
Operating income	26,661	20,326	41,727	35,068
Other income	-	-	-	1,434
Earnings before tax	26,661	20,326	41,727	36,502
Provision for income taxes	10,982	8,374	17,234	15,073
Net earnings	$15,679	$11,952	$24,493	$21,429
Net earnings per common share—basic	$2.16	$1.63	$3.38	$2.88
Net earnings per common share—diluted	$2.15	$1.63	$3.35	$2.86
Weighted average common shares outstanding—basic	7,274	7,320	7,249	7,412
Weighted average common shares outstanding—diluted	7,297	7,345	7,310	7,461

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 September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
	(amounts in thousands)			
NET EARNINGS	$15,679	$11,952	$24,493	$21,429
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Foreign currency translation adjustments	(177)	(160)	(134)	(44)
Other comprehensive income (loss)	(177)	(160)	(134)	(44)
TOTAL COMPREHENSIVE INCOME	$15,502	$11,792	$24,359	$21,385

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	Six Months Ended September 30,	
	2015	2014
	(in thousands)	
Cash Flows From Operating Activities:		
Net earnings	$24,493	$21,429
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	8,503	7,631
Reserve for credit losses, inventory obsolescence and sales returns	(123)	245
Share-based compensation expense	2,711	2,247
Excess tax benefit from share-based compensation	(1,151)	(824)
Payments from lessees directly to lenders—operating leases	(2,560)	(4,445)
Gain on disposal of property, equipment and operating lease equipment	(517)	(2,120)
Gain on sale of financing receivables	(3,991)	(3,179)
Gain on settlement	-	(1,434)
Other	6	50
Changes in:		
Accounts receivable—trade	(40,015)	13,236
Accounts receivable—other	(2,270)	(854)
Inventories	538	(7,006)
Financing receivables	(1,171)	(14,187)
Deferred costs, other intangible assets and other assets	11,035	1,333
Accounts payable—equipment	258	(162)
Accounts payable—trade	(7,442)	(29,315)
Salaries and commissions payable, deferred revenue and other liabilities	(10,964)	6,360
Net cash used in operating activities	$(22,660)	$(10,995)
Cash Flows From Investing Activities:		
Maturities of supplemental benefit plan investments	$-	$2,544
Proceeds from sale of property, equipment and operating lease equipment	3,199	5,751
Purchases of property, equipment and operating lease equipment	(15,618)	(1,919)
Purchases of assets to be leased or financed	(9,363)	(10,000)
Issuance of financing receivables	(67,623)	(51,163)
Repayments of financing receivables	35,460	28,082
Proceeds from sale of financing receivables	26,021	12,341
Cash used in acquisitions, net of cash acquired	-	(7,818)
Net cash used in investing activities	$(27,924)	$(22,182)

Table of Contents

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - continued

	Six Months Ended September 30,	
	2015	2014
	(in thousands)	
Cash Flows From Financing Activities:		
Borrowings of non-recourse and recourse notes payable	$11,239	$30,104
Repayments of non-recourse and recourse notes payable	(186)	(802)
Repurchase of common stock	(2,475)	(34,782)
Dividends paid	(80)	(90)
Excess tax benefit from share-based compensation	1,151	824
Net borrowings (repayments) on floor plan facility	27,635	20,694
Net cash provided by financing activities	37,284	15,948
Effect of exchange rate changes on cash	(33)	(9)
Net Decrease in Cash and Cash Equivalents	(13,333)	(17,238)
Cash and Cash Equivalents, Beginning of Period	76,175	80,179
Cash and Cash Equivalents, End of Period	$62,842	$62,941
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$50	$128
Cash paid for income taxes	$13,901	$12,770
Schedule of Non-Cash Investing and Financing Activities:		
Proceeds from sales of property, equipment and operating lease equipment	$6,726	$910
Purchase of property, equipment, and operating leases	$(8,181)	$(335)
Purchase of assets to be leased or financed included in accounts payable	$(5,615)	$(18,578)
Issuance of financing receivables	$(76,876)	$-
Repayment of financing receivables	$8,671	$-
Proceeds from sale of financing receivables	$58,520	$47,213
Borrowing of recourse and nonrecourse notes payable	$31,715	$-
Repayments of non-recourse and recourse notes payable	$(16,462)	$(19,171)
Vesting of share-based compensation	$7,687	$6,407
Contingent consideration	$-	$1,960

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents
ePlus inc. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
	(in thousands)						
Balance, April 1, 2015	7,389	$ 131	$ 111,072	$ (118,179)	$ 286,477	$ (239)	$ 279,262
Excess tax benefit of share- based compensation	-	-	1,151	-	-	-	1,151
Issuance of restricted stock awards	123	1	-	-	-	-	1
Share-based compensation	-	-	2,711	-	-	-	2,711
Repurchase of common stock	(30)	-	-	(2,475)	-	-	(2,475)
Net earnings	-	-	-	-	24,493	-	24,493
Foreign currency translation adjustment	-	-	-	-	-	(134)	(134)
Balance, September 30, 2015	7,482	$ 132	$ 114,934	$ (120,654)	$ 310,970	$ (373)	$ 305,009

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

INTERIM FINANCIAL STATEMENTS — The condensed consolidated financial statements for the three and six months ended September 30, 2015 and 2014 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 and six months ended September 30, 2015 and 2014 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending March 31, 2016 or any other future period. These unaudited condensed consolidated financial statements do not include all disclosures required by the accounting principles generally accepted in the United States (“U.S. GAAP”) for annual financial statements. Our audited consolidated financial statements are contained in our annual report on Form 10-K for the year ended March 31, 2015 (“2015 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 accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Estimates are used when accounting for items and matters including, but not limited to, revenue recognition, residual values, vendor consideration, lease classification, goodwill and intangibles, reserves for credit losses, inventory obsolescence, and the recognition and measurement of income tax assets and other provisions and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

The notes to the consolidated financial statements contained in the 2015 Annual Report 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 six months ended September 30, 2015.

CONCENTRATIONS OF RISK —A substantial portion of our sales of product and services are from sales of Cisco Systems, Hewlett-Packard, and NetApp products, which represented approximately 50%, 7% and 4%, and 50%, 8% and 4%, respectively, of our technology segment sales of product and services for the three and six months ended September 30, 2015, as compared to 56%, 8%, and 6%, and 52%, 8%, and 6%, respectively, of our technology segment sales of product and services for the three and six months ended September 30, 2014. Any changes in our vendors’ ability to provide products could have a material adverse effect on our business, results of operations and financial condition.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED — In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which will supersede all current US GAAP on this topic. The principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB deferred the effective date of this standard by one year. Including the one-year deferral, the new guidance becomes 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 standard can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are currently evaluating the impact it will have on our financial statements and disclosures and have not yet selected our planned transition approach.

Table of Contents

2. FINANCING RECEIVABLES AND OPERATING LEASES

Our financing receivables and operating leases consist of assets that we financed for our customers, which we manage as a portfolio of investments. Equipment financed for our customers are 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.

FINANCING RECEIVABLES—NET

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

September 30, 2015	Notes Receivables	Lease-Related Receivables	Total Financing Receivables
Minimum payments	$ 61,555	$ 67,238	$ 128,793
Estimated unguaranteed residual value (1)	-	9,287	9,287
Initial direct costs, net of amortization (2)	431	536	967
Unearned income	-	(5,403)	(5,403)
Reserve for credit losses (3)	(3,584)	(848)	(4,432)
Total, net	$ 58,402	$ 70,810	$ 129,212
Reported as:			
Current	$ 30,811	$ 33,457	$ 64,268
Long-term	27,591	37,353	64,944
Total, net	$ 58,402	$ 70,810	$ 129,212

(1) Includes estimated unguaranteed residual values of $4,216 thousand for direct financing leases, which have been sold and accounted for as sales under ASC Topic, Transfers and Servicing.
(2) Initial direct costs are shown net of amortization of $710 thousand.
(3) For details on reserve for credit losses, refer to Note 4, "Reserves for Credit Losses."

March 31, 2015	Notes Receivables	Lease-Related Receivables	Total Financing Receivables
Minimum payments	$ 59,943	$ 66,415	$ 126,358
Estimated unguaranteed residual value (1)	-	8,376	8,376
Initial direct costs, net of amortization (2)	429	495	924
Unearned income	-	(5,233)	(5,233)
Reserve for credit losses (3)	(3,573)	(881)	(4,454)
Total, net	$ 56,799	$ 69,172	$ 125,971
Reported as:			
Current	$ 33,484	$ 33,425	$ 66,909
Long-term	23,315	35,747	59,062
Total, net	$ 56,799	$ 69,172	$ 125,971

(1) Includes estimated unguaranteed residual values of $3,977 thousand for direct financing leases which have been sold and accounted for as sales under ASC Topic, Transfers and Servicing.
(2) Initial direct costs are shown net of amortization of $647 thousand.
(3) For details on reserve for credit losses, refer to Note 4, "Reserves for Credit Losses."

12

Table of Contents

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):

	September 30, 2015	March 31, 2015
Cost of equipment under operating leases	$ 41,373	$ 36,283
Accumulated depreciation	(18,470)	(18,354)
Investment in operating lease equipment—net (1)	$ 22,903	$ 17,929

(1) These totals include estimated unguaranteed residual values of $4,409 thousand and $4,340 thousand as of September 30, 2015 and March 31, 2015, respectively.

TRANSFERS OF FINANCIAL ASSETS

We enter into arrangements to transfer the contractual payments due under financing receivables and operating leases, which are accounted for as sales or secured borrowings in accordance with ASC Topic, Transfers and Servicing. For transfers accounted for as a secured borrowing, the corresponding investments serve as collateral for non-recourse notes payable. As of September 30, 2015 and March 31, 2015, we had financing receivables and operating leases of $46.5 million and $61.9 million, respectively, which were collateral for non-recourse notes payable. See Note 6, “Notes Payable and Credit Facility.”

For transfers accounted for as sales, we derecognize the carrying value of the asset transferred and recognize a net gain or loss on the sale, which is presented within net sales in the unaudited condensed consolidated statement of operations. During the three months ended September 30, 2015 and 2014, we recognized net gains of $2.5 million and $0.9 million, respectively. The fair value of assets received from these sales was $84.4 million and $37.6 million for the three months ended September 30, 2015 and 2014, respectively. During the six months ended September 30, 2015 and 2014, we recognized net gains of $4.0 million and $3.2 million, respectively. The fair value of assets received from these sales was $108.7 million and $93.8 million for the six months ended September 30, 2015 and 2014, respectively.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	September 30, 2015			March 31, 2015		
	Gross Carrying Amount	Accumulated Amortization / Impairment Loss	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization / Impairment Loss	Net Carrying Amount
Goodwill	$42,785	$ (8,673)	$34,112	$42,785	$ (8,673)	$34,112
Customer relationships & other intangibles	11,778	(7,389)	4,389	12,005	(6,560)	5,445
Capitalized software development	2,693	(1,683)	1,010	2,693	(1,452)	1,241
Total	$57,256	$ (17,745)	$39,511	$57,483	$ (16,685)	$40,798

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. Customer relationships and capitalized software development costs are amortized over an estimated useful life, which is generally between 3 to 6 years.

We perform our goodwill impairment test annually during our third quarter of each year. For the year ended March 31, 2015, we performed a qualitative assessment and concluded that the fair value of our reporting units were, more likely than not, greater than their respective carrying amounts.

Table of Contents

All of our goodwill as of September 30, 2015 and March 31, 2015 is related to our technology segment. The following table summarizes the amount of goodwill allocated to our reporting units (in thousands):

Reporting Unit	September 30, 2015	March 31, 2015
Technology	$ 33,023	$ 33,023
Software Document Management	1,089	1,089

OTHER INTANGIBLE ASSETS

Total amortization expense for other intangible assets was $0.7 million and $0.6 million for the three months and $1.3 and $1.0 million for the six months ended September 30, 2015 and 2014, respectively.

4. RESERVES FOR CREDIT LOSSES

Activity in our reserves for credit losses for the six months ended September 30, 2015 and 2014 were as follows (in thousands):

	Accounts Receivable	Notes Receivable	Lease-Related Receivables	Total
Balance April 1, 2015	$ 1,169	$ 3,573	$ 881	$ 5,623
Provision for credit losses	46	11	(33)	24
Write-offs and other	(119)	-	-	(119)
Balance September 30, 2015	$ 1,096	$ 3,584	$ 848	$ 5,528

	Accounts Receivable	Notes Receivable	Lease-Related Receivables	Total
Balance April 1, 2014	$ 1,364	$ 3,364	$ 1,024	$ 5,752
Provision for credit losses	(99)	309	11	221
Write-offs and other	(122)	-	(31)	(153)
Balance September 30, 2014	$ 1,143	$ 3,673	$ 1,004	$ 5,820

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):

	September 30, 2015		March 31, 2015	
	Notes Receivable	Lease-Related Receivables	Notes Receivable	Lease-Related Receivables
Reserves for credit losses:				
Ending balance: collectively evaluated for impairment	$ 384	$ 725	$ 440	$ 740
Ending balance: individually evaluated for impairment	3,200	123	3,133	141
Ending balance	$ 3,584	$ 848	$ 3,573	$ 881
Minimum payments:				
Ending balance: collectively evaluated for impairment	$ 58,035	$ 67,096	$ 56,525	$ 66,255
Ending balance: individually evaluated for impairment	3,520	142	3,418	160
Ending balance	$ 61,555	$ 67,238	$ 59,943	$ 66,415

The net credit exposure for the balance evaluated individually for impairment as of September 30, 2015 was $3.7 million, $3.2 million of which is related to one customer. During fiscal year 2012, we began selling and financing various products and services to a large law firm, which filed for bankruptcy in May 2012. As of September 30, 2015, we had $3.2 million of notes and lease-related receivables from this customer and total reserves for credit losses of $3.2 million, which represented our estimated probable loss. As of March 31, 2015, we had $3.2 million of notes and lease-related receivables from this customer and total reserves for credit losses of $3.2 million. The note and lease receivables associated with this customer are on non-accrual status.

Table of Contents

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 September 30, 2015 and March 31, 2015 (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
September 30, 2015										
High CQR	$ 131	$ 83	$ 186	$ 400	$ 193	$ 47,143	$ 47,736	$ (2,744)	$ (10,664)	$ 34,328
Average CQR	3	-	102	105	64	19,191	19,360	(1,454)	(6,077)	11,829
Low CQR	-	-	142	142	-	-	142	(19)	-	123
Total	$ 134	$ 83	$ 430	$ 647	$ 257	$ 66,334	$ 67,238	$ (4,217)	$ (16,741)	$ 46,280
March 31, 2015										
High CQR	$ 70	$ 185	$ 133	$ 388	$ 430	$ 41,213	$ 42,031	$ (2,340)	$ (16,561)	$ 23,130
Average CQR	15	68	19	102	75	24,047	24,224	(1,742)	(9,397)	13,085
Low CQR	-	-	-	-	-	160	160	(19)	-	141
Total	$ 85	$ 253	$ 152	$ 490	$ 505	$ 65,420	$ 66,415	$ (4,101)	$ (25,958)	$ 36,356

The age of the recorded notes receivable balance disaggregated based on our internally assigned CQR were as follows as September 30, 2015 and March 31, 2015 (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
September 30, 2015									
High CQR	$ -	$ 5	$ 174	$ 179	$ 34	$ 44,843	$ 45,056	$ (25,890)	$ 19,166
Average CQR	6	6	118	130	202	12,647	12,979	(7,763)	5,216
Low CQR	-	-	3,520	3,520	-	-	3,520	-	3,520
Total	$ 6	$ 11	$ 3,812	$ 3,829	$ 236	$ 57,490	$ 61,555	$ (33,653)	$ 27,902
March 31, 2015									
High CQR	$ 338	$ 260	$ 161	$ 759	$ 2,455	$ 35,996	$ 39,210	$ (18,255)	$ 20,955
Average CQR	57	-	-	57	376	16,882	17,315	(11,665)	5,650
Low CQR	-	-	656	656	-	2,762	3,418	-	3,418
Total	$ 395	$ 260	$ 817	$ 1,472	$ 2,831	$ 55,640	$ 59,943	$ (29,920)	$ 30,023

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.

Table of Contents

5. PROPERTY, EQUIPMENT, OTHER ASSETS AND LIABILITIES

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

	September 30, 2015	March 31, 2015
Other current assets:		
Deposits & funds held in escrow	$ 916	$ 4,281
Prepaid assets	3,120	2,652
Other	682	480
Total other current assets	$ 4,718	$ 7,413
Other assets:		
Deferred costs	$ 2,302	$ 2,308
Property and equipment, net	5,957	6,127
Other	710	1,045
Total other assets - long term	$ 8,969	$ 9,480

	September 30, 2015	March 31, 2015
Other current liabilities:		
Accrued expenses	$ 6,590	$ 5,302
Deferred compensation	-	222
Other	9,886	8,051
Total other current liabilities	$ 16,476	$ 13,575
Other liabilities:		
Deferred revenue	$ 2,382	$ 2,923
Other	895	890
Total other liabilities - long term	$ 3,277	$ 3,813

6. NOTES PAYABLE AND CREDIT FACILITY

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

	September 30, 2015	March 31, 2015
Recourse notes payable with interest rates ranging from 2.24% and 4.13% at September 30, 2015 and ranging from 2.24% and 4.13% at March 31, 2015.		
Current	$ 1,204	$ 889
Long-term	2,815	2,801
Total recourse notes payable	$ 4,019	$ 3,690
Non-recourse notes payable secured by financing receivables and investments in operating leases with interest rates ranging from 1.70% to 7.50% at September 30, 2015 and ranging from 1.70% to 10.00% as of March 31, 2015.		

Current	$ 28,137	$28,560
Long-term	10,510	24,314
Total non-recourse notes payable	$ 38,647	$52,874

Principal and interest payments on the non-recourse notes payable are generally due monthly in amounts that are approximately equal to the total payments due from the customer under the leases or notes receivable that collateralize the notes payable. The weighted average interest rate for our non-recourse notes payable was 3.18% and 3.23%, as of September 30, 2015 and March 31, 2015, respectively. The weighted average interest rate for our recourse notes payable was 3.21% and 3.19%, as of September 30, 2015 and March 31, 2015, 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.

Table of Contents

In May 2014, we entered into an agreement to repurchase the rights, title, and interest to payments due under a financing agreement. This financing agreement was previously assigned to a third party financial institution and accounted for as a secured borrowing. In conjunction with the repurchase agreement, we recognized a gain of $1.4 million in the six months ended September 30, 2014, which is presented within other income in our unaudited condensed consolidated statement of operations.

Our technology segment, through our subsidiary ePlus Technology, inc., finances its operations with funds generated from operations, and with a credit facility with GE Commercial Distribution Finance Corporation (“GECDF”). This facility provides short-term capital for our technology segment. There are two components of the GECDF credit facility: (1) a floor plan component and (2) an accounts receivable component. Under the floor plan component, we had outstanding balances of $127.1 million and $99.4 million as of September 30, 2015 and March 31, 2015, respectively. Under the accounts receivable component, we had no outstanding balances as of September 30, 2015 and March 31, 2015. As of September 30, 2015, 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 its subsidiary, ePlus Technology Services, inc., is secured by a blanket lien against all their 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. and its subsidiary. We were in compliance with these covenants as of September 30, 2015. In addition, the facility restricts the ability of ePlus Technology, inc. and its subsidiary 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. and its subsidiary be provided within 45 days of each quarter and 90 days of each fiscal year end and also includes that other operational reports be provided on a regular basis. Either party may terminate with 90 days’ advance notice. We are not, and do not believe that we are reasonably likely to be, in breach of the GECDF credit facility. In addition, we do not believe that the covenants of the GECDF credit facility materially limit our ability to undertake financing. In this regard, the covenants apply only to our subsidiary, ePlus Technology, inc. and its subsidiary. This credit facility is secured by the assets of ePlus Technology, inc. and its subsidiary, ePlus Technology Services, inc. and the guaranty as described below.

The facility provided by GECDF requires a guaranty of $10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its annual audited financial statements by certain dates. We have delivered the annual audited financial statements for the year ended March 31, 2015, as required. The loss of the GECDF credit facility could have a material adverse effect on our future results as we currently rely on this facility and its components for daily working capital and liquidity for our technology segment and as an operational function of our accounts payable process.

Fair Value

As of September 30, 2015 and March 31, 2015, the fair value of our long-term recourse and non-recourse notes payable approximated their carrying value.

Table of Contents

7. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We were the plaintiff in a lawsuit in the United States District Court for the Eastern District of Virginia ("the Trial Court") in which, on January 27, 2011, a jury unanimously found that Lawson Software, Inc. ("Lawson") infringed certain ePlus patents. On August 16, 2013, the Trial Court found, by clear and convincing evidence, that Lawson was in contempt of the Trial Court's May 23, 2011, injunction which restricted Lawson from taking certain actions that infringed one of our patents. Lawson appealed, and while the appeal was pending, on April 3, 2014, the United States Patent and Trademark Office issued a notice canceling the patent. On July 25, 2014, the United States Court of Appeals for the Federal Circuit ("the Appeals Court") vacated the injunction and the contempt order. On June 18, 2015, the Appeals Court, in a 5-5 split opinion, denied our petition for rehearing. We intend to ask the United States Supreme Court to consider the case.

These types of cases are complex in nature, are likely to have significant expenses associated with them, and we cannot predict when any litigation will be resolved, whether we will be successful in any claim for monetary or equitable relief, whether any award ultimately received will exceed the costs incurred to pursue this matter, or how long it will take to bring any matter to resolution.

Other Matters

We may become party to various legal proceedings arising in the ordinary course of business including preference payment claims asserted in customer bankruptcy proceedings, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, claims of alleged non-compliance with contract provisions, employment related claims, claims by competitors, vendors or customers, claims related to alleged violations of laws and regulations, and claims relating to alleged security or privacy breaches. Although we do not expect that the outcome in any of these matters, individually or collectively, will have a material adverse effect on our financial condition or results of operations, litigation is inherently unpredictable. Therefore, judgments could be rendered or settlements entered that could adversely affect our results of operations or cash flows in a particular period. We provide for costs related to contingencies when a loss is probable and the amount is reasonably determinable.

8. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net earnings attributable to common shares by the weighted average number of common shares outstanding for the period. Diluted net earnings per share include the potential dilution of securities that could participate in our earnings, but not securities that are anti-dilutive. In the past, certain unvested shares of restricted stock awards ("RSAs") contained non-forfeitable rights to dividends, whether paid or unpaid. As a result, these RSAs were considered participating securities because their holders had the right to participate in earnings with common stockholders. We used the two-class method to allocate net income between common shares and other participating securities for the six months ended September 30, 2014. As of September 30, 2015, we had no unvested shares of RSAs that contained non-forfeitable rights to dividends. We no longer grant RSAs that contain non-forfeitable rights to dividends.

Table of Contents

The following table provides a reconciliation of the numerators and denominators used to calculate basic and diluted net earnings per common share for the three and six months ended September 30, 2015 and September 30, 2014 (in thousands, except per share data).

	Three months ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Basic and diluted common shares outstanding:				
Weighted average common shares outstanding — basic	7,274	7,320	7,249	7,412
Effect of dilutive shares	23	25	61	49
Weighted average shares common outstanding — diluted	7,297	7,345	7,310	7,461
Calculation of earnings per common share - basic:				
Net earnings	$15,679	$11,952	$24,493	$21,429
Net earnings attributable to participating securities	-	-	-	55
Net earnings attributable to common shareholders	$15,679	$11,952	$24,493	$21,374
Earnings per common share - basic	$2.16	$1.63	$3.38	$2.88
Calculation of earnings per common share - diluted:				
Net earnings attributable to common shareholders— basic	$15,679	$11,952	$24,493	$21,374
Add: undistributed earnings attributable to participating securities	-	-	-	1
Net earnings attributable to common shareholders— diluted	$15,679	$11,952	$24,493	$21,375
Earnings per common share - diluted	$2.15	$1.63	$3.35	$2.86

As of September 30, 2015 and 2014, we did not have any unexercised stock options.

9. STOCKHOLDERS' EQUITY

On August 13, 2015, our board of directors authorized the Company to repurchase up to 500,000 shares of its outstanding common stock over a 12-month period beginning on August 17, 2015 through August 16, 2016. 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 six months ended September 30, 2015, we did not purchase any shares of our outstanding common stock under the share repurchase plan; however, we did purchase 30,447 shares of common stock at a value of $2.5 million to satisfy tax withholding obligations relating to the vesting of employees' restricted stock.

During the six months ended September 30, 2014, we repurchased 651,019 shares of our outstanding common stock at an average cost of $50.31 per share for a total purchase price of $32.8 million under a share repurchase plan. We also purchased 35,158 shares of common stock at a value of $2.0 million to satisfy tax withholding obligations relating to the vesting of employees' restricted stock.

Since the inception of our initial repurchase program on September 20, 2001 to September 30, 2015, we have repurchased approximately 5.6 million shares of our outstanding common stock at an average cost of $20.00 per share for a total purchase price of $111.6 million.

19

Table of Contents

10. SHARE-BASED COMPENSATION

Share-Based Plans

As of September 30, 2015, 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"). All 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.

For a summary of descriptions and vesting periods of the 2008 Director LTIP, and the 2012 Employee LTIP discussed above, refer to our 2015 Annual Report.

Restricted Stock Activity

For the six months ended September 30, 2015, we granted 6,151 restricted shares under the 2008 Director LTIP, and 118,974 restricted shares under the 2012 Employee LTIP. For the six months ended September 30, 2014, we granted 9,390 restricted shares under the 2008 Director LTIP, and 78,165 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, 2015	176,514	$ 52.75
Granted	125,125	$ 81.76
Vested	(94,625)	$ 48.75
Forfeited	(2,321)	$ 64.06
Nonvested September 30, 2015	204,693	$ 72.21

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.

Compensation Expense

We recognize compensation cost for awards of restricted stock with graded vesting on a straight line basis over the requisite service period and estimate the forfeiture rate to be zero, which is based on historical experience. There are no additional conditions for vesting other than service conditions. During the three months ended September 30, 2015 and 2014, we recognized $1.5 million and $1.2 million, respectively, of total share-based compensation expense. During the six months ended September 30, 2015 and 2014, we recognized $2.7 million and $2.2 million, respectively, of total share-based compensation expense. Unrecognized compensation expense related to non-vested restricted stock was $13.0 million as of September 30, 2015, which will be fully recognized over the next fifty-seven months.

We also provide our employees with a contributory 401(k) plan. Employer contribution percentages are determined by us and are discretionary each year. The employer contributions vest pro-ratably over a four-year service period by the employees, after which all employer contributions will be fully vested. For the three months ended September 30, 2015 and 2014, our estimated contribution expense for the plan was $0.4 million and $0.3 million, respectively. For the six months ended September 30, 2015 and 2014, our estimated contribution expense for the plan was $0.7 million and $0.6 million, respectively.

11. INCOME TAXES

We recognize interest and penalties for uncertain tax positions. As of September 30, 2015 our gross liability related to uncertain tax positions was $72 thousand. At September 30, 2015 if the unrecognized tax benefits of $72 thousand were to be recognized, including the effect of interest, penalties and federal tax benefit, the impact would be $102 thousand. We also recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. We did not recognize any additional penalties. We had $46 thousand and $67 thousand accrued for the payment of interest at September 30, 2015 and 2014, respectively

Table of Contents

12. 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 September 30, 2015 and March 31, 2015 (in thousands):

		Fair Value Measurement Using		
	Recorded Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2015:				
Assets:				
Money market funds	$ 39,504	$ 39,504	$ -	$ -
Liabilities:				
Contingent consideration	$ 2,145	$ -	$ -	$ 2,145

		Fair Value Measurement Using		
	Recorded Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable I nputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2015:				
Assets:				
Money market funds	$ 25,004	$ 25,004	$ -	$ -
Liabilities:				
Contingent consideration	$ 1,830	$ -	$ -	$ 1,830

For the three and six months ended September 30, 2015, we recorded adjustments that increased the fair value of our liability for contingent consideration by $205 thousand and $315 thousand, respectively, and such adjustments were presented within general and administrative expenses in our unaudited condensed consolidated statement of operations. There was no adjustment in fair value recognized in either the three or the six months ended September 30, 2014.

Table of Contents

13. SEGMENT REPORTING

Our operations are conducted through two 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. Our reportable segment information was as follows (in thousands):

	Three Months Ended					
	September 30, 2015			September 30, 2014		
	Technology	Financing	Total	Technology	Financing	Total
Sales of product and services	$324,259	$ -	$324,259	$286,584	$ -	$286,584
Financing revenue	-	10,279	10,279	-	9,059	9,059
Fee and other income	1,721	27	1,748	1,782	47	1,829
Net sales	325,980	10,306	336,286	288,366	9,106	297,472
Cost of sales, product and services	261,208	-	261,208	230,742	-	230,742
Direct lease costs	-	3,157	3,157	-	2,806	2,806
Cost of sales	261,208	3,157	264,365	230,742	2,806	233,548
Professional and other fees	1,305	208				