

EPLUS INC  
Form 10-K  
May 26, 2016

---

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended March 31, 2016

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 of principal executive offices)

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

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

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

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

None

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

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

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

Edgar Filing: EPLUS INC - Form 10-K

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

---

---

Edgar Filing: EPLUS INC - Form 10-K

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer (do not check if 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 aggregate market value of the common stock held by non-affiliates of ePlus, computed by reference to the closing price at which the stock was sold as of September 30, 2015 was \$521,917,902. The outstanding number of shares of common stock of ePlus as of May 23, 2016, was 7,177,196.

DOCUMENTS INCORPORATED BY REFERENCE

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

Portions of the Company's definitive Proxy Statement relating to its 2016 annual meeting of stockholders ( the "2016 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2016 Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the Company's fiscal year end to which this report relates.

---

## Table of Contents

	Page
<u>Cautionary Language About Forward-Looking Statements</u>	1
Part I	
Item 1. <u>Business</u>	3
<u>Executive Officers</u>	12
Item 1A. <u>Risk Factors</u>	13
Item 1B. <u>Unresolved Staff Comments</u>	21
Item 2. <u>Properties</u>	21
Item 3. <u>Legal Proceedings</u>	21
Item 4. <u>Mine Safety Disclosures</u>	21
Part II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	22
Item 6. <u>Selected Financial Data</u>	24
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	45
Item 8. <u>Financial Statements and Supplementary Data</u>	45
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	45
Item 9.A <u>Controls and Procedures</u>	45
Item 9B. <u>Other Information</u>	46
Part III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	47
Item 11. <u>Executive Compensation</u>	47
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	47
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	47
Item 14. <u>Principal Accounting Fees and Services</u>	47
Part IV	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	48
<u>Signatures</u>	52

Table of Contents

[This Page Intentionally Left Blank]

---

Table of Contents

CAUTIONARY LANGUAGE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain statements that are, or may be deemed to be, “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or “Exchange Act,” and are made in reliance upon the protections provided by such acts for forward-looking statements. Such statements are not based on historical fact, but are based upon numerous assumptions about future conditions that may not occur. Forward-looking statements are generally identifiable by use of forward-looking words such as “may,” “should,” “would,” “intend,” “estimate,” “will,” “potential,” “possible,” “could,” “believe,” “expect,” “intend,” “plan,” “anticipate,” “hope,” “project,” and similar expressions. Readers are cautioned not to place undue reliance on any forward-looking statements made by us or on our behalf. Forward-looking statements are made based upon information that is currently available or management’s current expectations and beliefs concerning future developments and their potential effects upon us, speak only as of the date hereof, and are subject to certain risks and uncertainties. We do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur, or of which we hereafter become aware. Actual events, transactions and results may materially differ from the anticipated events, transactions or results described in such statements. Our ability to consummate such transactions and achieve such events or results is subject to certain risks and uncertainties. Such risks and uncertainties include, but are not limited to, the matters set forth below:

- uncertainty and volatility in the global economy including exposure to fluctuation in foreign currency rates, and downward pressure on prices;
- significant adverse changes in, reductions in, or loss of our largest customer or one or more of our large 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 companies offering a similar set of solutions, 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;
  - maintaining our proprietary software and updating 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 members of our senior management team and/or failure to successfully implement succession plans;
- our dependence on key personnel to maintain certain customer relationships, and our ability to hire, train, and retain sufficient qualified personnel;

our ability to implement comprehensive plans for the integration of sales forces, cost containment, asset rationalization, systems integration and other key strategies;

· a possible decrease in the capital spending budgets of our customers or a decrease in purchases from us;

· our contracts may not be adequate to protect us and 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 customers' electronic and other confidential information, and remain secure during a cyber-security attack;

Table of Contents

- our ability to raise capital, maintain or increase as needed our lines of credit with vendors or floor planning facility, or obtain debt for our financing transactions or the effect of those changes on our common stock or its holders;
- our ability to realize our investment in leased equipment;
- our ability to successfully integrate acquired businesses;
- the possibility of goodwill impairment charges in the future;
- our ability to protect our intellectual property rights and successfully defend any challenges to the validity of our patents or allegations that we are infringing upon any third party patents, and the costs associated with those actions, and, when appropriate, license required technology;
- 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 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").

Industry and Market Data

This Form 10-K includes industry data that we obtained from periodic industry publications, which represent data, research opinion or viewpoints published as part of syndicated subscription services.

The Gartner Report(s) described herein, (the "Gartner Report(s)") represent(s) research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this 10-K) and the opinions expressed in the Gartner Report(s) are subject to change without notice

Table of Contents

PART I

ITEM 1. BUSINESS

GENERAL

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

Our operations are conducted through two business segments. Our technology segment sells information technology hardware products, third-party software and maintenance contracts, our own and third-party advanced professional and managed services, and our proprietary software. Our financing segment operations primarily consist of the financing of information technology equipment, software and related services. Both segments sell to commercial entities, state and local governments, government contractors, and educational institutions. See Note 15, “Segment Reporting” in the consolidated financial statements included elsewhere in this report.

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

Technology

- ePlus Technology, inc.;
- ePlus Systems, inc.;
- ePlus Content Services, inc.;
- ePlus Document Systems, inc.;
- ePlus Technology Services, inc.
- ePlus Cloud Services, inc., and
- IGXGlobal UK, Limited

Financing

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

We began using the name ePlus inc. in 1999 after changing our name from MLC Holdings, Inc. ePlus Technology, inc. conducts our technology sales and services business. ePlus Systems, inc. and ePlus Content Services, inc. were incorporated on May 15, 2001 and provide consulting services and proprietary software for enterprise supply management. ePlus Capital, inc. owns 100 percent of ePlus Canada Company, which was created on December 27, 2001 to transact business within Canada. ePlus Government, inc. was incorporated on September 17, 1997 to transact business with governmental contractors servicing the federal government marketplace and other state and local governments. ePlus Document Systems, inc. was incorporated on October 15, 2003 and provides proprietary software for document management, ePlus Technology Services, inc. was incorporated on May 17, 2010 to provide professional and management services and IGXGlobal UK, Limited was acquired in December 2015.



Table of Contents

OUR BUSINESS

We are a leading provider of information technology (IT) solutions which enable organizations to optimize their IT environment and supply chain processes. We deliver and integrate world-class IT products and software from top vendors, and provide private, hybrid, and public cloud solutions to meet customers' evolving needs. We also provide consulting, professional and managed services and complete lifecycle management services including flexible financing solutions. We have been in the business of selling, leasing, financing, and managing information technology and other assets for more than 26 years.

Our primary focus is to deliver secure, integrated technology solutions for our customers' data center, network, security, maintenance, and collaboration needs, including hosted, on-premise, hybrid and cloud infrastructures. These solutions may encompass the full lifecycle of IT and include consulting, assessments, architecture, design, testing, implementation, and ongoing managed services and periodic consultative business reviews. We offer security, storage, cloud, mobility, hyper-converged infrastructure, and other advanced technologies. We design, implement and provide an array of IT solutions from multiple leading IT vendors. We are an authorized reseller from over 1,000 vendors, but primarily from approximately 100 vendors, including Check Point, Cisco Systems, Dell, EMC, FireEye, F5 Networks, Hewlett-Packard, Juniper, McAfee, NetApp, Nimble, Oracle, Palo Alto Networks, Pure Storage, VMware, among many others. We possess top-level engineering certifications with a broad range of leading IT vendors that enable us to offer multi-vendor IT solutions that are optimized for each of our customers' specific requirements. Our hosted, proprietary software solutions are focused on giving our customers more control over their IT supply chain, by automating and optimizing the procurement and management of their assets.

Our size and strong financial results have enabled us to invest in the engineering and technology resources required to stay current with emerging technology trends and deliver leading edge IT solutions. We believe we are a trusted IT advisor to our customers, delivering turn-key IT solutions that incorporate hardware, software, security and both managed and professional services. In addition, we offer a wide range of leasing and financing options for technology and other capital assets. We believe our lifecycle approach offering of integrated IT products, services, financing, and our proprietary supply chain software, is unique in the industry. It allows us to offer a customer service strategy that spans the continuum from fast delivery of competitively priced products, services, subsequent management and upkeep, through to end-of-life disposal services. This selling approach also permits us to grow with our customers and solidify our relationships through hands-on engagement and understanding of their needs.

We focus exclusively on middle market and large enterprises. For the year ended March 31, 2016, the percentage of revenue by customer end market within our technology segment includes state and local government, and educational institutions 22%, technology industry 23%, telecommunications, media and entertainment 14%, financial services 12%, and healthcare 10%. The majority of our sales were generated within the United States, however, we have the ability to support our customers nationally and internationally and this year we acquired our first international subsidiary which is located in the U.K. Our technology segment accounts for 97% of our net sales, and 84% of our operating income, while our financing segment accounts for 3% of our net sales, and 16% of our operating income for the year ended March 31, 2016.

OUR INDUSTRY BACKGROUND AND MARKET OPPORTUNITY

We participate in the large and growing United States IT market which, according to Gartner, Inc. is estimated to generate sales of over \$1.15 trillion in 2016, and is expected to grow at a compound annual rate of approximately 2.1% for 2015 through 2019<sup>1</sup>.

---

<sup>1</sup> Gartner, "Market Databook, 1Q16 Update," 2014-2020 End-User Spending on IT Products and Services, March 28, 2016 (U.S.).



## Table of Contents

We are focused on and have identified several specific trends that we believe will create higher growth than the broader U.S. IT market:

Increasing sophistication and incidences of IT security breaches and cyber-attacks. Over the last decade, cyber-attacks have become more sophisticated, more prevalent and difficult to safeguard against. We believe our customers are focused on all aspects of cyber security, including intellectual property, data and business processes, as well as compliance with an increasing number of general and industry-specific government regulations. In order to meet current and future security threats, enterprises must implement solutions that are fully-integrated and capable of monitoring, detecting, containing and remediating security threats and attacks.

Rapidly evolving technologies are creating complexity and challenges for customers and vendors. Historically, customers could procure and implement disparate hardware and software solutions to satisfy their IT needs. However, the emergence of complex IT offerings such as software defined infrastructure, cloud computing, converged and hyper-converged infrastructures, big data analytics, and flash storage, has made it difficult for customers to effectively design, procure, implement and manage their own IT systems. Moreover, increased budget pressures, fewer internal resources, a fragmented vendor landscape and fast time-to-value expectations make it challenging for customers to design, implement and manage secure, efficient and cost-effective IT environments.

Customer IT decision making is shifting from IT departments to line-of-business personnel. As IT consumption shifts from legacy, on-premise infrastructure to agile 'on-demand' and 'as-a-service' solutions, customer procurement decisions are being shifted from traditional IT personnel to lines-of-business personnel, which is changing the customer engagement model and types of consultative services required to fulfill customer needs. In addition, many of the services create recurring revenue streams paid over time, rather than upfront revenue.

Lack of sufficient internal IT resources at mid-sized and large enterprises, and scarcity of IT personnel in certain high-demand disciplines. We believe that IT departments at mid-sized and large enterprises are facing pressure to deliver emerging technologies and business outcomes without having properly trained personnel and an inability to hire personnel in high demand disciplines such as security and data analytics. At the same time the prevalence of security threats, increased use of cloud computing, proliferation of mobile devices, bring-your-own-device (BYOD) policies, and complexity of multi-vendor solutions, have made it difficult for IT departments to implement high-quality IT solutions.

Reduction in the number of IT solutions providers. We believe that customers are seeking to reduce the number of vendors they do business with to improve supply chain and internal efficiencies, enhance accountability, improve supplier management practices and reduce costs. As a result, customers are required to select IT solutions providers that are capable of delivering complex multi-vendor IT solutions.

Increasing need for third-party services. We believe that customers are relying on third-party service providers to manage significant aspects of their IT environment, from design, implementation, pre- and post-sales support, maintenance, engineering, cloud management, security operations, and other services.

## COMPETITION

The market for IT sales and professional services is competitive, subject to economic conditions and rapid change, and significantly affected by new product introductions and other market activities of industry participants. We expect to continue to compete in all areas of our business against local, regional, national and international firms, including: vendors other direct marketers, national and regional resellers, and regional, national, and international services providers. Many of our competitors commoditize products which places downward pressure on product pricing. In addition, many IT vendors may sell or lease directly to our customers, and our continued ability to compete effectively

may be affected by the policies of such vendors. We face indirect competition from potential customers' internal development efforts and have to overcome potential customers' reluctance to move away from legacy systems and processes. As IT consumption shifts from IT personnel and legacy infrastructure to line-of-business based outcomes utilizing off-premise, on-demand, and cloud solutions, the legacy resale model is shifting from upfront sales to recurring revenue model.

5

---

## Table of Contents

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

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

## OUR SOLUTIONS

### Technology Segment

**IT Sales:** Our offerings consist of hardware, software, maintenance, software assurance and services. We believe that our customers view technology purchases as integrated solutions, rather than discrete product and service categories, and the majority of our sales are derived from integrated solutions involving our customers' data center, network, and collaboration infrastructure. We hold various technical and sales related certifications that authorize us to market their products and enable us to provide advanced professional services. We actively engage with emerging vendors to offer their technologies to our customers. Our flexible platform and customizable catalogs facilitate the addition of new vendors' products with minimal incremental effort.

- **Advanced Professional and Managed Services:** We provide a range of advanced professional and managed services to help our customers improve productivity, profitability and revenue growth while reducing operating costs. Our solutions and services include the following:

• **Data center solutions** enable customers to streamline operations, reduce complexity and costs, and simplify vendor management;

• **Network services** aim to improve network performance for our customers;

• **Collaboration and mobility services** facilitate engagement between customer personnel and third-parties.

• **Security solutions** help safeguard our customers' IT infrastructure through environment analysis, risk identification and the implementation of security solutions and processes;

• **Managed services** enable customers to reduce costs and burdens of their day-to-day IT tasks while monitoring availability, reliability and performance;

• **Staff augmentation services** provide customers with flexible headcount options while allowing them to access talent, fill specific technology skill gaps, or provide short-term or long-term IT professional help, which also includes services, such as Virtual Chief Information Officer (vCIO) and Virtual Chief Information Security Officer (vCISO), used to help complement existing personnel and build three to five year IT roadmaps;

Server and desktop support provides outsourcing services to respond to our customers' business demands while minimizing overhead;

Professional services focused on cloud infrastructure, unified communications, collaboration, networking, storage, hyper-converged infrastructure, virtual desktop infrastructure, supported by security and managed services solutions; and

Project management services enhance productivity and collaboration to enable successful implementations.

6

---

## Table of Contents

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

OneSource®IT is an online web based software portal for customers purchasing IT equipment, software, and services from us; OneSource®IT+ is an online web based software portal for customers purchasing IT products from other suppliers and/or from us;

- OneSource® Procurement is a complete web-based software tool to facilitate procurement of any type of asset;
- OneSource® Asset Management is a software platform for managing and tracking corporate assets including vendor maintenance contracts; and

OneSource® DigitalPaper is a document management software application.

## Financing Segment

- Leasing and Financing: We specialize in financing arrangements, including direct financing, sales-type and operating leases; notes receivable, and consumption-based financing arrangements; and underwriting and management of IT equipment and assets. Our financing operations include sales, pricing, credit, contracts, accounting, risk management and asset management.

We primarily finance IT equipment including accessories and software, communication-related equipment, and medical equipment. We may also finance industrial machinery and equipment, office furniture and general office equipment, transportation equipment, and other general business equipment. We offer our solutions both directly and through vendors.

We offer enhanced financing solutions for our customers, and our business process services approach automates a significant portion of the IT procurement process and reduces our customers' cost of doing business. The solution incorporates value-added services at every step in the process, including:

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

## OUR COMPETITIVE STRENGTHS

### Large Addressable Market with Substantial Growth Opportunities Driven by Increasing IT Complexity

We participate in the large and growing IT market with specific focus on the data center, network, cloud, security, virtualization and mobility segments of the industry, facilitated by our professional and managed service solutions. We believe we are well positioned in the complex high-growth IT solutions segment and can achieve outsized growth relative to the overall IT market.

We focus exclusively on enterprises, primarily large and middle market companies as well as state, local and educational entities. Our products and services are targeted at the approximately 50,000 middle market companies, state and local governmental organizations and educational institutions in the United States. We believe IT organizations within these companies are facing pressure to deliver higher service levels with fewer resources, increasing their reliance on third parties who can provide complex, multi-vendor technology solutions, such as our

company.

#### Broad and Diverse Customer Base across a Wide Range of End Markets

We have a broad and diverse customer base of over 3,100 customers across a wide range of end markets. We serve a wide range of end markets, including education, financial services, healthcare, media and entertainment, state and local government, technology and telecommunications.

7

---

Table of Contents

Differentiated Business Model Serving Entire IT Lifecycle – Solutions, Services, Software, Financing

We believe we are a trusted IT advisor, delivering differentiated products and services to enable our customers to meet increasingly complex IT requirements. We are able to provide complete, turn-key solutions serving the entire IT lifecycle – products, services, software and financing. We provide upfront assessments, configuration capabilities, installation and implementation, and ongoing services to support our customers' solutions.

Deep Expertise in Advanced Technology to Address Emerging Data Center and IT Infrastructure Trends

We believe our customers choose us for their complex IT infrastructure needs based on our track record of delivering best-of-breed solutions, value-added services and close relationships with both established and emerging vendors.

Strategic Ability to Design and Integrate Cloud Solutions Across Multiple Vendors

We believe our relationships with vendors focused on the design and integration of cloud systems allows us to provide differentiated, market-leading cloud offerings. We have developed long standing, strategic partnerships with leading cloud systems vendors, including Cisco Systems, EMC, Hewlett Packard Enterprise, NetApp, and VMware.

Our vendor agnostic approach allows us to provide the best customer-specific solutions. Our experienced professionals are trained in various product lines across vendors and have achieved top-level certifications with multiple strategic partners. In addition to providing initial products, our vendor certifications allow us to contract the assumption of many of the day-to-day maintenance and servicing functions for these products.

Proven Track Record of Successfully Integrating Acquisitions and Accelerating Growth

We view acquisitions as an important factor in our strategic growth plan. Since 1997, we have successfully identified and integrated 19 acquisitions. Most recently, we have been active in tuck-in acquisitions to broaden our product offerings, sector reach and geographic footprint, with recent acquisitions including:

· IGX Acquisition Global, LLC , and IGX Support, LLC, including IGX Acquisition's wholly-owned subsidiary, IGXGlobal UK Limited (collectively, "IGX") – Expansion of sales presence in New York and New England, as well as an operating branch in London that serves United Kingdom and global customers.

· Granite Business Solutions, Inc. ("Evolve")– West Coast operations expansion and broadened SLED customer base

· Advistor – Upstate New York operations expansion and broadened storage offerings and expertise

· pbm (Pacific Blue Micro)– Expansion of West Coast operations

· Vanticore – Northern New England operations expansion, gained municipal contracts and customer contact center expertise

· NCC Networks – Midwest operations expansion and broadened security expertise.

We seamlessly integrate acquired firms into the ePlus platform, which allows us to maintain customers and vendor relationships and retain key employees from acquired firms, and accelerate growth.

We continue to review new acquisition opportunities to grow our global footprint and expand our offerings.

Financial Performance Characterized by Growth and Profitability

We have focused on achieving top-line revenue growth while maintaining industry-leading gross margins – with a compound annual growth rate of 10.9% on net sales and 10.7% for consolidated gross profit, respectively, from April 1, 2011 to March 31, 2016.

Through our organic expansion as well as acquisitions, we have increased our employee base by 48% from April 1, 2011 to March 31, 2016 while increasing revenue per employee by approximately 13%. Our increase in our employee base has largely been in customer facing roles.

8

---

Table of Contents

GROWTH STRATEGY

Our goal is to continue to grow as a leading provider of technology solutions. The key elements of our strategy include the following:

Be Our Customers' Partner of Choice for IT Solutions, Which May Include Services, and Financing Needs

We seek to become the primary provider of IT solutions for each of our customers by delivering IT solutions whether on-premise, cloud, or managed services-based. We provide excellent customer service, pricing, availability, and advanced professional and managed services in an efficient manner. We believe the increasing complexity of the IT ecosystem and the emergence of new technologies and vendors are factors that will lead to a growing demand from existing customers. We continue to focus on improving our sales efficiency by providing on-going training and targeted incentive compensation, as well as implementing better automation processes to reduce costs and improve productivity. Our account executives are trained on our broad solutions capabilities and to sell in a consultative manner that increases the likelihood of cross-selling our solutions. We believe that our bundled offerings are an important differentiating factor from our competitors. We also have experienced pre-sales engineers and inside sales representatives to support our outside sales representatives.

We focus on gaining top-level engineering certifications and professional services expertise in advanced technologies of strategic vendors. This expertise helps our customers develop their cloud capabilities including private, public, and hybrid infrastructures. We are providing virtual desktop infrastructure, unified communications, collaboration, networking, security, storage, big-data, mobility, converged and hyper-converged infrastructures, and managed services offerings, all of which remain in high demand. We believe our ability to deliver advanced professional services provides benefits in two ways. First, we gain recognition and mindshare of our strategic vendor partners and become the "go-to" partner in selected regional markets as well as the national market. This significantly increases direct and referral sales opportunities for our products and services, and allows us to offer competitive pricing levels. Second, within our existing and potential customer base, our advanced professional services are a key differentiator against competitors who cannot provide services or advanced services for these key technologies or across multiple vendor product lines.

We continuously offer best-of-breed solutions to provide our clients with next generation capabilities. During the last fiscal year, we have expanded our managed services offerings to include Managed Flashstack, hybrid IT monitoring services, and managed video services.

Build Our Geographic Footprint

We intend to increase our direct sales and targeted marketing efforts in each of our geographic areas. We actively seek to acquire new account relationships through face-to-face field sales, electronic commerce (especially OneSource®), leveraging our partnerships with vendors, and targeted direct marketing to increase awareness of our solutions. We also seek to broaden our customer base, expand our geographic reach, improve our technical expertise, and scale our existing operating structure through acquisitions.

Recruit, Retain and Develop Employees

Based on our prior experience, capital structure, and business systems and processes, we believe we are well positioned to take advantage of hiring experienced sales people and engineers, and make strategic acquisitions that broaden our customer base, expand our geographic reach, scale our existing operating structure, and/or enhance our product and service offerings. Part of our growth strategy is to hire purposefully, and evaluate strategic hiring opportunities if and when they become available. During the year ended March 31, 2016, as part of our expansion strategy, our customer facing sales and professional services team grew from 712 to 799.

### Improve Operational Efficiencies

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

9

---

Table of Contents

RESEARCH AND DEVELOPMENT

We incur software development costs associated with maintaining, enhancing or upgrading our proprietary software, which may be performed by internal IT development resources or by an offshore software-development company that we use to supplement our internal development team.

SALES AND MARKETING

We focus our sales and marketing efforts on becoming the primary provider of IT solutions for each of our customers and by seeking to acquire new account relationships through face-to-face field sales and leveraging our partnerships with manufacturers and targeted direct marketing to increase awareness of our solutions. We target enterprises, primarily middle market companies with annual revenues between \$20 million and \$2.5 billion and large companies. We believe there are over 50,000 potential customers in the middle market and we currently have over 3,100 customers. We undertake direct marketing campaigns to target certain markets in conjunction with our primary vendor partners, who may provide financial reimbursement, outsourced services, and personnel to assist us in these efforts.

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

As of March 31, 2016, our sales force consisted of 457 sales, marketing and sales support personnel organized regionally in 32 office locations throughout the United States.

INTELLECTUAL PROPERTY RIGHTS

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

For example in the United States we have six catalog management patents, three image transmission management patents, a patent for collaborative editing of electronic documents over a network, a hosted asset information management patent, and an eCatalog supplier portal patent, among others. The three image transmission patents are scheduled to expire in 2018; the earliest of the catalog management patents is scheduled to expire in 2024; and the patent for collaborative editing of electronic documents over a network is scheduled to expire in 2025, provided that all maintenance fees are paid in accordance with USPTO regulations. We also have certain patent rights in some European forums, Japan, and Canada. We cannot provide assurance that any patents, as issued, will prevent the development of competitive products or that our patents will not be successfully challenged by others or invalidated through the administrative process or litigation.

Our trademarks in the United States include ePlus®, eCloud®, Procure+®, Manage+®, Docpak®, Viewmark®, OneSource®, and Where Technology Means More®. We intend to use and protect these and our other marks, as we deem necessary. We believe our trademarks have significant value and are an important factor in the marketing of our products. In addition to our trademarks, we have over 20 registered copyrights and additional common-law trademarks and copyrights.

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

Table of Contents

FINANCIAL AND RISK MANAGEMENT ACTIVITIES

**Inventory Management:** We have drop-shipment arrangements with many of our vendors and distributors, which permit us to offer products to our customers without having to take physical delivery of the equipment. Arrow Enterprises, Ingram Micro, and Tech Data are the largest distributors we utilize. Using the distribution systems available, we frequently sell products that are shipped from the vendors or distributors directly to our customers' location, which allows us to keep our inventory of any product and shipping expenses to a minimum. For the year ended March 31, 2016, our largest distributors accounted for 34% of our purchases related to our technology segment net sales.

Sales of products manufactured by Cisco Systems, HPE, and NetApp, whether purchased directly from these vendors or through distributors, represented 49%, 7%, and 5%, respectively, of our technology segment net sales for the year ended March 31, 2016. Our flexible platform and customizable catalogs facilitate the addition of new vendors with minimal incremental effort.

**Risk Management and Process Controls:** We use and maintain conservative underwriting policies and disciplined credit approval processes in both our technology and financing segments. We have an executive management review process and other internal controls in place to evaluate the transactions' potential risk.

In our technology segment, we manage our risk by using conservative credit quality analysis and periodic monitoring of customer financial results or third-party risk evaluation tools; monitoring customer accounts receivable balances and payment history; proactively pursuing delinquent accounts; ensuring we have appropriate contractual terms and conditions; perfecting purchase money security interest when appropriate; requiring prepayment or deposits if indicated; performing fraud checks for new accounts; and evaluating general economic as well as industry specific trends. Our systems automatically decrease trade credit lines based on assigned risk ratings.

In our financing segment, we manage our risk in assets we finance by assigning the contractual payments due under the financing arrangement to third parties. We also use agency purchase orders to procure equipment for lease to our customers and otherwise take measures to minimize our inventory of financed assets. When our technology segment is the supplier of the assets being financed, we maintain certain procurement risks. Our financing arrangements with our customers are generally fixed-rate.

**Credit Risk Loss Experience:** During the fiscal year ended March 31, 2016, we decreased our reserves for credit losses by \$272 thousand, incurred actual credit losses of \$188 thousand and had recoveries of \$30 thousand. During the fiscal year ended March 31, 2015, we increased our reserves for credit losses by \$125 thousand, incurred actual credit losses of \$257 thousand and had recoveries of \$3 thousand. During the fiscal year ended March 31, 2014, we increased our reserves for credit losses by \$750 thousand, incurred actual credit losses of \$127 thousand, and had no recoveries.

BACKLOG

We rely on our vendors or distributors to fulfill a large majority of our shipments to our customers. As of March 31, 2016, we had open orders of \$109.4 million and deferred revenue of \$20.2 million. As of March 31, 2015, we had open orders of \$74.9 million and deferred revenues of \$37.3 million. We expect that the open orders as of March 31, 2016 will be recognized within ninety days of that date. We also expect that 91% of the deferred revenues as of March 31, 2016 will be recognized within the next twelve months.

EMPLOYEES

## Edgar Filing: EPLUS INC - Form 10-K

As of March 31, 2016, we employed 1,074 employees who operated through 32 office locations, home offices and customer sites. No employees are represented by a labor union and we believe that we have good relations with our employees. The functional areas of our employees are as follows:

	March 31,	
	2016	2015
Sales and Marketing	457	404
Professional Services	342	308
Administration	195	188
Software Development and Internal IT	73	78
Executive Management	7	8
	1,074	986

### U.S. SECURITIES AND EXCHANGE COMMISSION REPORTS

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports, filed with or furnished to the U.S. Securities and Exchange Commission (“SEC”), are available free of charge through our Internet website, [www.eplus.com](http://www.eplus.com), as soon as reasonably practical after we have electronically filed such material with, or furnished it to, the SEC. The public may read and copy any materials filed by us with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-202-551-8300. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov). The contents on or accessible through, these websites are not incorporated into this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.

Table of Contents

## EXECUTIVE OFFICERS

The following table sets forth the name, age and position of each person who was an executive officer of ePlus on March 31, 2016. There are no family relationships between any directors or executive officers of ePlus.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Phillip G. Norton	72	Director, Chairman of the Board of Directors, President and Chief Executive Officer
Mark P. Marron	54	Chief Operating Officer
Elaine D. Marion	48	Chief Financial Officer
Steven J. Mencarini	60	Senior Vice President of Business Operations

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

Phillip G. Norton joined the Company in March 1993 and has served since as its Chairman of the Board and Chief Executive Officer. Since September 1, 1996, Mr. Norton has also served as President of the Company. Mr. Norton had extensive leasing experience prior to joining ePlus. With over thirty years of senior management experience in the equipment leasing and equipment sales markets, Mr. Norton brings leadership, vision, and extensive business, operating, and financing experience to the Company. He has tremendous knowledge of our markets, and since joining the Company in 1993, he has guided the expansion of our business lines and revenues. Today, we are a provider of advanced technology solutions, leasing, and software with \$1.2 billion in revenues, as compared to our initial businesses of equipment leasing and brokerage with revenues of \$40 million when the Company went public in 1996. As CEO, Mr. Norton has led several successful capital raising initiatives, including our IPO and secondary offerings and two private equity rounds; multiple accretive acquisitions in three different business lines; the hiring and retention of numerous highly qualified personnel; the successful litigation of multiple patent infringement lawsuits protecting our patent rights; and the development of strong industry relationships with key technology partners.

He was founder, Chairman of the Board of Directors, President and Chief Executive Officer of Systems Leasing Corporation, an equipment leasing and equipment brokerage company which he founded in 1978 and sold to PacifiCorp, Inc., a large Northwest utility, in 1986. From 1986 to 1990, Mr. Norton served as President and CEO of PacifiCorp Capital, Inc., the leasing entity of PacifiCorp, Inc., which had over \$650 million of leased assets. From 1990 until 1993, Mr. Norton coached high school basketball and invested in real estate. From 1970-1975, he worked in various sales and management roles for Memorex Corporation, a vendor of storage and communication equipment and from 1975-1978, he was Vice President of Federal Leasing Corporation, a provider of financing and logistics to federal, state, and local governments. In June 2011, Mr. Norton began serving on the Board of Directors of The Northern Virginia Technology Council, the largest membership and trade association for technology in the United States. Mr. Norton is a 1966 graduate of the U.S. Naval Academy, with a Bachelor's of Science degree in engineering, and served in the U.S. Navy from 1966-1970 as a Lieutenant in the Supply Corps.

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

Elaine D. Marion joined us in 1998. Ms. Marion became our Chief Financial Officer on September 1, 2008. From 2004 to 2008, Ms. Marion served as our Vice President of Accounting. Prior to that, she was the Controller of ePlus

Technology, inc., a subsidiary of ePlus, from 1998 to 2004. Ms. Marion is a graduate of George Mason University, where she earned a Bachelor's of Science degree in Business Administration with a concentration in Accounting.

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

Table of Contents

ITEM 1A. RISK FACTORS

General Economic Weakness May Harm Our Operating Results and Financial Condition

Our results of operations are dependent, to a large extent, upon the state of the economy. Global economic weakness and uncertainty may result in decreased sales, gross margin, and earnings or growth rates. Adverse economic conditions may decrease our customers' demand for our products and services or impair the ability of our customers to pay for products and services they have purchased. As a result, our sales could decrease and reserves for our credit losses and write-offs of receivables may increase.

If We Lost One or More of Our Large Customers, Our Earnings May be Affected

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

For the year ended March 31, 2016 and 2015, no single customer's sales were greater than 10% of total net sales. For the year ended March 31, 2014, sales to a large telecommunications company were approximately 11% of total net sales, all of which related to our technology segment

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

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

For the fiscal years ended March 31, 2016, 2015, and 2014, vendor incentives earned remained a fairly stable component of our gross margins on consolidated sales of product and services. There was a decrease in the percentage of vendor incentives earned which resulted in a 30-basis point reduction to our gross margins for sales of product and services for the year ended March 31, 2016 compared to the prior year. The change in the amount of vendor incentives earned during the fiscal years ended March 31, 2015 as compared to 2014 resulted in an increase to our gross margins for sales of products and services of 10 basis points.

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

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

As of March 31, 2016 and 2015, we had reserves for credit losses of \$5.2 million and \$5.6 million, respectively, which included a specific reserve of \$3.2 million, due to a customer that filed for bankruptcy in May 2012.

Table of Contents

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

Our results of operations are influenced by a variety of factors, including the condition of the IT industry, shifts in demand for, or availability of, IT hardware, software, peripherals and services, and industry introductions of new products, upgrades or methods of distribution. The IT industry is characterized by rapid technological change and the frequent introduction of new products, product enhancements and new distribution methods or channels, each of which can decrease demand for current products or render them obsolete. In addition, the proliferation of cloud technology, infrastructure as a service (“IaaS”), software as a service (“SaaS”), platform as a service (“PaaS”), software defined networking, or other emerging technologies may reduce the demand for products and services we sell to our customers. Cloud offerings may influence our customers to move workloads to cloud providers, which may reduce the procurement of products and services from us. Changes in the IT industry may also affect the demand for our advanced professional and managed services. We have invested a significant amount of capital in our services strategy and it may fail due to competition or changes in the industry. If we fail to react in a timely manner to such changes, our results of operations may be significantly adversely affected. Our sales can be dependent on demand for specific product categories, and any change in demand for or supply of such products could have a material adverse effect on our results of operations.

We Are Dependent on Continued Innovations in Hardware, Software and Services Offerings by Our Vendors and the Competitiveness of Their Offerings, and Our Ability to Partner With New and Emerging Technology Providers

The technology industry is characterized by rapid innovation and the frequent introduction of new and enhanced hardware, software and services offerings, such as cloud-based solutions, including IaaS, SaaS and PaaS. We are dependent on innovations in hardware, software and services offerings, as well as the acceptance of those innovations by our customers. A decrease in the rate of innovation, or the lack of acceptance of innovations by our customers, could have an adverse effect on our business, results of operations or cash flows.

In addition, if we are unable to keep up with changes in technology and new hardware, software and services offerings, for example by not providing the appropriate training to our account managers, sales technology specialists and engineers to enable them to effectively sell and deliver such new offerings to customers, our business, results of operations or cash flows could be adversely affected.

We also are dependent upon our vendors for the development and marketing of hardware, software and services to compete effectively with hardware, software and services of vendors whose products and services we do not currently offer or that we are not authorized to offer in one or more customer channels. In addition, our success is dependent on our ability to develop relationships with and sell hardware, software and services from new emerging vendors and vendors that we have not historically represented in the marketplace. To the extent that a vendor's offering that is highly in demand is not available to us for resale in one or more customer channels, and there is not a competitive offering from another vendor that we are authorized to sell in such customer channels, or we are unable to develop relationships with new technology providers or companies that we have not historically represented, our business, results of operations or cash flows could be adversely impacted.

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

A substantial portion of our revenue within in our technology segment is dependent on a small number of key vendors including Cisco Systems, Hewlett-Packard companies, and NetApp. Products manufactured by Cisco Systems represented approximately 49%, 49% and 48% of our technology segment net sales for the years ended March 31, 2016, 2015 and 2014, respectively. Products manufactured by Hewlett-Packard companies represented approximately 7%, 8% and 10% of our technology segment net sales for the years ended March 31, 2016, 2015 and 2014,

respectively. NetApp products represented approximately 5%, 7% and 8% of our technology segment net sales for the years ended March 31, 2016, 2015 and 2014, respectively.

### Table of Contents

Our industry frequently experiences periods of product shortages from our vendors as a result of our vendors' difficulties in projecting demand for certain products sold by us, additional trade law provisions or regulations, additional duties, tariffs or other charges on imports or exports, natural disasters affecting our suppliers' facilities, and significant labor disputes. As we do not stock inventory that is not related to an order we have received from our customer, we are dependent upon the supply of products available from our vendors in order to fulfill orders from our customers on a timely basis. The loss of, or change in business relationship with, any of these or any other key vendor partners, the diminished availability of their products, or backlogs for their products leading to manufacturer allocation, could reduce the supply and increase the cost of products we sell and negatively impact our competitive position.

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

We rely on arrangements with third parties to perform certain professional services, managed services, warranties, and configuration services and other services for our customers, which, if not performed by these third parties in accordance with the terms of the agreement or if they cause disruption of or security weaknesses in our customers' businesses, could result in legal claims or costs to our organization, including monetary damages paid to our customers and an adverse effect on our customer relationships, our brand and our business, results of operations, or cash flows could be affected.

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

The loss of a key vendor or changes in its policies could adversely impact our financial results. Violation of a contract that results in either the termination of our ability to sell the product or a decrease in our certification level with the vendor could adversely impact our financial results. In addition, a reduction in the amount of credit granted to us by our vendors and financial partners could increase our need for and cost of working capital and have a material adverse effect on our business, results of operations and financial condition.

### Loss of Services by Any of Our Executive Officers or Senior Management and/or Failure to Successfully Implement Our Succession Plan Could Adversely Affect Our Business

The loss of the services by our executive officers or senior management and failure to successfully implement a succession plan could disrupt management of our business and impair the execution of our business strategies. We believe that our success depends in part upon our ability to retain the services of our executive officers and senior management and successfully implement a succession plan. Our executive officers have been instrumental in determining our strategic direction and focus. The loss of our executive officers' and senior management's services without replacement by qualified successors could adversely affect our ability to manage effectively our overall operations and successfully execute current or future business strategies and could cause other instability within our workforce.

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

To increase market awareness and sales of our offerings, we may need to expand our sales operations and marketing efforts in the future. Our products and services require a sophisticated sales effort and significant technical engineering talent. For example, our sales and engineering candidates must have highly technical hardware and software knowledge in order to create a customized solution for our customers' business processes. Competition for qualified sales, marketing and engineering personnel fluctuates depending on market conditions and we may not be

able to hire or retain sufficient numbers of such personnel to maintain and grow our business. Increasingly, our competitors are requiring their employees to agree to non-compete and non-solicitation agreements as part of their employment. This could result in making it more difficult for us to hire and increase our costs by reviewing and managing non-compete restrictions. Additionally, in some cases our relationship with a customer may be impacted by turnover in our sales or engineering team.

15

---

Table of Contents

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

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

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

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

We May Not Adequately Protect Ourselves Through Our Contract Vehicles or Our Insurance Policies May Not be Adequate to Address Potential Losses or Claims

Our contracts may not protect us against the risks inherent in our business including, but not limited to, warranties, limitations of liability, indemnification obligations, human resources and subcontractor-related claims, patent and product liability, data security and financing activities. Also, we face pressure from our customers for competitive pricing contract terms. Despite the non-recourse nature of the loans financing certain of our activities, non-recourse lenders may file suit when the underlying transaction turns out poorly for the lenders. We are subject to such suits and the cost of defending such suits due to the nature of our business.

Failure to Comply With Our Public Sector Contracts or Applicable Laws and Regulations Could Result in, Among Other Things, Termination, Fines or Other Liabilities, and Changes in Procurement Regulations Could Adversely Impact Our Business

Revenues in our public sector are derived from sales to state and local government and educational institution (SLED) customers, through various contracts and open market sales of products and services. Sales to SLED customers are highly regulated. Noncompliance with contract provisions, government procurement regulations or other applicable laws or regulations could result in civil, criminal and administrative liability, including substantial monetary fines or damages, termination of SLED sector customer contracts, and suspension, debarment or ineligibility from doing business with the government and other customers in the SLED sector. In addition, contracts in the SLED sector are generally terminable at any time for convenience of the contracting agency or upon default. The effect of any of these possible actions could adversely affect our business, results of operations or cash flows. In addition, the adoption of new or modified procurement regulations and other requirements may increase our compliance costs and reduce our gross margins, which could have a negative effect on our business, results of operations or cash flows.

We Face Substantial Competition From Larger Companies That May be Difficult to Overcome

In our technology segment, we compete in all areas of our business against local, regional, national and international firms, including other direct marketers; national and regional resellers; and regional, national and international service providers. In addition, we face competition from vendors, which may choose to market their products directly to end-users, rather than through channel partners such as our company, and this could adversely affect our future sales.

Many competitors compete principally on the basis of price and may have lower costs or accept lower selling prices than we do and, therefore, current gross margins may not be maintainable. In addition, we do not have guaranteed purchasing volume commitments from our customers and, therefore, our sales volume may be volatile.

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

Table of Contents

Our Results of Operations are Subject to Fluctuations in Foreign Currency

In December 2015, we purchased 100% of the stock of IGXGlobal UK Ltd. and in January 2016 we created IGX Capital UK, Ltd., both of which are formed and operate in the United Kingdom. As result of this U.K. presence, we have additional exposure to fluctuations in foreign currency rates results primarily from the translation exposure associated with the preparation of our consolidated financial statements. We also have a Canadian subsidiary, ePlus Canada Company. While our consolidated financial statements are reported in U.S. dollars, the financial statements of our subsidiaries outside the U.S. are prepared using the local currency as the functional currency and translated into U.S. dollars. As a result, fluctuations in the exchange rate of the U.S. dollar relative to the local currencies of our international subsidiaries in Canada and the United Kingdom could cause fluctuations in our results of operations. We also have foreign currency exposure to the extent net sales and purchases are not denominated in a subsidiary's functional currency, which could have an adverse effect on our business, results of operations or cash flows.

We May be Liable for Misappropriation of Our Customers' or Employees' Information

The security practices and products used in our product and service offerings or our security practices or products used in our internal information technology systems may be circumvented or sabotaged by third parties, such as hackers, which could result in the disclosure of sensitive information or private personal information, unauthorized procurement, or cause other business interruptions that could damage our reputation and disrupt our business. Attacks may range from random attempts to coordinated and targeted attacks, including sophisticated computer crime and advanced persistent threats.

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

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

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

We are dependent upon the reliability of our information, telecommunication and other systems, which are used for sales, distribution, marketing, purchasing, inventory management, order processing, customer service and general accounting functions. We must continually improve our systems to maintain efficiency. Poor security practices or design of our information technology systems, or third party service providers' failure to provide adequate services

could result in the disclosure of sensitive information or private personal information or cause other business interruptions that could damage our reputation and disrupt our business. Interruption or poor design of our information systems, Internet, telecommunications systems or power failures could have a material adverse effect on our business, financial condition, cash flows or results of operations.

Table of Contents

Failure to Comply with New or Changes in Laws and Other Legislation May Adversely Impact Our Business

Our operations are subject to numerous U.S. and foreign laws and regulations in a number of areas including, but not limited to, areas of labor and employment, immigration, advertising, e-commerce, tax, import and export requirements, anti-corruption, data privacy requirements, anti-competition, and environmental, health, and safety. Compliance with these laws, regulations and similar requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business, and the risk of noncompliance. We have implemented policies and procedures designed to help ensure compliance with applicable laws and regulations, but there can be no guarantee against employees, contractors, or agents violating such laws and regulations or our policies and procedures.

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

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

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

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

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

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

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

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

Under the applicable accounting principles, goodwill is not amortized and is carried on our books at its original value, subject to annual review and evaluation for impairment, whereas intangible assets are amortized over the life of the asset. Changes in the business itself, the economic environment (including business valuation levels and trends), or the

legislative or regulatory environment may trigger a review and evaluation of our goodwill and intangible assets for potential impairment outside of the normal review periods. These changes may adversely affect either the fair value of the business or the fair value of our individual reporting units and we may be required to take an impairment charge.

If market and economic conditions deteriorate, this could increase the likelihood that we will need to record impairment charges to the extent the carrying value of our goodwill exceeds the fair value of our overall business. Such impairment charges could materially adversely affect our net earnings during the period in which the charge is taken. As of March 31, 2016, we had goodwill and other intangible assets of \$54.2 million.

Table of Contents

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

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

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

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

Changes in Accounting Rules May Adversely Affect Our Future Financial Results

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

Our Software Products and Services Subject Us to Challenges and Risks in a Rapidly Evolving Market

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

In the software market a number of companies market business-to-business electronic commerce solutions similar to ours, and competitors are adapting their product offerings to a SaaS platform. We may not be able to compete successfully against current or future competitors, and competitive pressures faced by us may harm our business, operating results or financial condition. We also face indirect competition from potential customers' internal

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

In all of our markets, some of our competitors have longer operating histories and greater financial, technical, marketing, and other resources than we do. In addition, some of these competitors may be able to respond more quickly to new or changing opportunities, technologies, and customer requirements. Many current competitors may have, and potential competitors may have, greater name recognition and engage in more extensive promotional marketing and advertising activities, offer more attractive terms to customers, and adopt more aggressive pricing policies than we do. We may not be successful in achieving revenue growth and may incur additional costs associated with our software products, which may have a material adverse effect on our future operating results as a whole.

Table of Contents

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

Products as complex as those used to provide our electronic commerce solutions often contain unknown and undetected errors or performance problems. We may have serious defects immediately following introduction of new products or enhancements to existing products. Undetected errors or performance problems may not be discovered in the future and errors considered by us to be minor may be considered serious by our customers. Our software products may be circumvented or sabotaged by third parties such as hackers which could result in the disclosure of sensitive information or private personal information, unauthorized procurement, or cause other business interruptions that could damage our reputation and disrupt our business. Attacks may range from random attempts to coordinated and targeted attacks, including sophisticated computer crime and advanced persistent threats. In addition, our customers may experience a loss in connectivity by our software solutions as a result of a power loss at our data center, Internet interruption or defects in our software. This could result in lost revenues, delays in customer acceptance or unforeseen liabilities that would be detrimental to our reputation and to our business.

We May Be Unable to Protect Our Intellectual Property and Costs to Protect Our Intellectual Property May Affect Our Earnings

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

The legal and associated costs to protect our intellectual property may significantly increase our expenses and have a material adverse effect on our operating results. We may deem it necessary to protect our intellectual property rights and significant expenses could be incurred with no certainty of the results of these potential actions. Costs relative to lawsuits are usually expensed in the periods incurred and there is no certainty in recouping any of the amounts expended regardless of the outcome of any action.

If Securities Analysts Do Not Publish Research or Reports About Our Company, or If They Issue Unfavorable Commentary About Us or Our Industry or Downgrade Our Common Stock, the Price of Our Common Stock Could Decline

The trading market for our common stock depends in part on the research and reports that third-party securities analysts publish about us and our industry. One or more analysts could downgrade our common stock or issue other negative commentary about us or our industry. If one or more of the analysts that covers us cease coverage, we could lose visibility in the market. As a result of one or more of these factors, the trading price of our common stock could decline.

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

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

Future Offerings of Debt or Equity Securities, Which Would Rank Senior to Our Common Stock, May Adversely Affect the Market Price of Our Common Stock

If, in the future, we decide to issue debt or equity securities that rank senior to our common stock, it is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution to owners of our common stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings, if any. Thus, holders of our common stock will bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their stock holdings in our common stock.

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of March 31, 2016, we operated from 32 office locations, and a number of home offices or customer sites. Our total leased square footage as of March 31, 2016, was approximately 251 thousand square feet for which we incurred rent expense of approximately \$359 thousand per month. Some of our subsidiaries operate in shared office space to improve sales, marketing and cost efficiency. Eleven of our office locations include dedicated or shared space configuration centers; which include certain locations in California, New Hampshire, New York, North Carolina, Pennsylvania, Texas, and Virginia. Some sales and technical service personnel operate from either home offices or space that is provided for by another entity or are located on a customer site.

Our largest office location is in Herndon, Virginia. The leasing contract extends to December 31, 2017, and contains a renewal option to extend the lease through December 31, 2019. For more information see Exhibit 10.1, of our Form 8-K filed March 6, 2014.

ITEM 3. LEGAL PROCEEDINGS

On May 23, 2011, the United States District Court for the Eastern District of Virginia entered judgment in our favor, against Lawson Software, Inc. (“Lawson”), for \$18.2 million, in a lawsuit we filed against Lawson alleging patent infringement. Subsequently, the United States Patent and Trademark Office canceled the patent, and the Federal Circuit Court of Appeals vacated the judgment. On February 29, 2016, the United States Supreme Court denied our petition for certiorari, in which we asked the court to hear our appeal. As a result, the lawsuit has concluded.

We are not currently a party to any legal proceedings with loss contingencies that are expected to be material. From time to time, we have been a plaintiff, or may be named as a defendant, in legal actions arising from our normal business activities, none of which has had a material effect on our business, results of operations or financial condition. Legal proceedings which may arise in the ordinary course of business including preference payment claims asserted in customer bankruptcy proceedings, tax audits, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, claims of alleged non-compliance with contract provisions, employment related claims, claims by competitors, vendors or customers, claims related to alleged violations of laws and regulations, and claims relating to alleged security or privacy breaches. We attempt to ameliorate the effect of potential litigation through insurance coverage and contractual protections such as rights to indemnifications and limitations of liability. We do not expect that the outcome in any of these matters, individually or collectively, will have a material adverse effect on our financial condition or results of operations, however, litigation is inherently unpredictable. Therefore, judgments could be rendered or settlements entered that could adversely affect our results of operations or cash flows in a particular period. We provide for costs related to contingencies when a loss is probable and the amount is reasonably determinable.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

Table of Contents

## PART II

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

## MARKET INFORMATION

At March 31, 2016, our common stock traded on The NASDAQ Global Select Market under the symbol "PLUS." The following table sets forth the range of high and low sales prices for our common stock during each quarter of the two fiscal years ended March 31, 2016 and 2015.

Quarter Ended	High	Low
Fiscal Year 2016		
March 31, 2016	\$96.20	\$61.78
December 31, 2015	\$109.33	\$77.71
September 30, 2015	\$81.80	\$71.40
June 30, 2015	\$89.28	\$74.17
Fiscal Year 2015		
March 31, 2015	\$91.38	\$64.58
December 31, 2014	\$75.94	\$54.05
September 30, 2014	\$60.80	\$50.17
June 30, 2014	\$61.76	\$49.23

On May 23, 2016, the closing price of our common stock was \$82.76 per share. On May 23, 2016, there were 157 stockholders of record of our common stock. We believe there are approximately 4,800 beneficial holders of our common stock.

## DIVIDEND POLICIES AND RESTRICTIONS

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

## PURCHASES OF OUR COMMON STOCK

The following table provides information regarding our purchases of ePlus inc. common stock during the fiscal year ended March 31, 2016.

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly	Maximum number (or approximate dollar value) of shares that may yet be purchased

Edgar Filing: EPLUS INC - Form 10-K

			announced plans or programs	under the plans or programs	
April 1, 2015 through April 30, 2015	-		-	351,960	(2 )
May 1, 2015 through May 31, 2015	-		-	351,960	(3 )
June 1, 2015 through June 15, 2015	18,284	\$ 82.63	-	351,960	(4 )
June 16, 2015 through August 16, 2015	12,163	\$ 79.32	-	-	(5 )
August 17, 2015 through August 31, 2015	-	-	-	500,000	(6 )
September 1, 2015 through September 30, 2015	-	-	-	500,000	(7 )
October 1, 2015 through October 31, 2015	-	-	-	500,000	(8 )
November 1, 2015 through November 30, 2015	-	-	-	500,000	(9 )
December 1, 2015 through December 31, 2015	-	-	-	500,000	(10)
January 1, 2016 through January 31, 2016	-	-	-	500,000	(11)
February 1, 2016 through February 28, 2016	51,165	\$ 74.27	51,165	448,835	(12)
March 1, 2016 through March 31, 2016	65,137	\$ 77.73	65,137	383,698	(13)

Table of Contents

- (1) All shares acquired were in open-market purchases, except for 30,447 shares, which were repurchased to satisfy tax withholding obligations that arose due to the vesting of shares of restricted stock.  
The share purchase authorization in place for the month ended April 30, 2015 had purchase limitations on the
- (2) number of shares of up to 500,000 shares. As of April 30, 2015, the remaining authorized shares to be purchased were 351,960.  
The share purchase authorization in place for the month ended May 31, 2015 had purchase limitations on the
- (3) number of shares of up to 500,000 shares. As of May 31, 2015, the remaining authorized shares to be purchased were 351,960.  
The share purchase authorization expired June 15, 2015 and had purchase limitations on the number of shares of up
- (4) to 500,000 shares. As of June 15, 2015, the remaining number of authorized shares that could have been purchased was 351,960.
- (5) There was no share purchase authorization plan in place from June 16, 2015 to August 16, 2015. The previous plan expired on June 15, 2015.  
On August 13, 2015, the board of directors authorized the company to repurchase up to 500,000 shares of its
- (6) outstanding common stock commencing on August 17, 2015 through August 16, 2016. No stock purchases were made under this authorization during the period of August 17, 2015 through August 31, 2016.  
The share purchase authorization in place for the month ended September 30, 2015 had purchase limitations on the
- (7) number of shares of up to 500,000 shares. As of September 30, 2015, no stock purchases were made under this authorization.  
The share purchase authorization in place for the month ended October 31, 2015 had purchase limitations on the
- (8) number of shares of up to 500,000 shares. As of October 31, 2015, no stock purchases were made under this authorization.  
The share purchase authorization in place for the month ended November 30, 2015 had purchase limitations on the
- (9) number of shares of up to 500,000 shares. As of November 30, 2015, no stock purchases were made under this authorization.  
The share purchase authorization in place for the month ended December 31, 2015 had purchase limitations on
- (10) the number of shares of up to 500,000 shares. As of December 31, 2015, no stock purchases were made under this authorization.  
The share purchase authorization in place for the month ended January 31, 2016 had purchase limitations on the
- (11) number of shares of up to 500,000 shares. As of January 31, 2016, no stock purchases were made under this authorization.  
The share purchase authorization in place for the month ended February 28, 2016 had purchase limitations on the
- (12) number of shares of up to 500,000 shares. As of February 28, 2016, the remaining authorized shares to be purchased were 448,835.  
The share purchase authorization in place for the month ended March 31, 2016 had purchase limitations on the
- (13) number of shares of up to 500,000 shares. As of March 31, 2016, the remaining authorized shares to be purchased were 383,698.

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

Table of Contents

## ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and with the consolidated financial statements and related notes, which are included elsewhere in this Form 10-K. The selected consolidated statement of operations data for the years ended March 31, 2016, 2015 and 2014 and the selected consolidated balance sheet data as of March 31, 2016 and 2015 presented below was derived from our audited consolidated financial statements, which are included elsewhere herein. The selected financial data as of and for the years ended March 31, 2013 and 2012 have been derived from our audited consolidated financial statements, which are not included in this report.

Statement of Operations Data:	For the years ended March 31,				
	2016	2015	2014	2013	2012
	(in thousands, except per share data)				
Net sales	\$1,204,199	\$1,143,282	\$1,057,536	\$983,112	\$825,581
Cost of sales	942,142	898,735	840,623	778,339	654,066
Gross profit	262,057	244,547	216,913	204,773	171,515
Operating expense	186,306	173,837	156,815	146,028	131,941
Operating income	75,751	70,710	60,098	58,745	39,574
Other income	-	7,603	-	-	-
Earnings before provision for income taxes	75,751	78,313	60,098	58,745	39,574
Provision for income taxes	31,004	32,473	24,825	23,915	16,207
Net earnings	\$44,747	\$45,840	\$35,273	\$34,830	\$23,367
Net earnings per common share - basic	\$6.17	\$6.26	\$4.41	\$4.37	\$2.82
Net earnings per common share - diluted	\$6.09	\$6.19	\$4.37	\$4.32	\$2.79
Dividend per common share	\$-	\$-	\$-	\$2.50	\$-
	As of March 31,				
Balance Sheet Data:	2016	2015	2014	2013	2012
	(in thousands)				
Cash and cash equivalents	\$94,766	\$76,175	\$80,179	\$52,720	\$33,778
Accounts receivable—net	\$276,399	\$249,803	\$243,216	\$192,254	\$174,599
Total financing receivables and operating leases—net	\$132,354	\$143,900	\$143,739	\$122,603	\$140,311
Total assets	\$616,680	\$568,275	\$550,103	\$437,872	\$433,688
Total non-recourse and recourse notes payable	\$47,422	\$56,564	\$68,888	\$41,739	\$28,055
Total liabilities	\$297,802	\$289,013	\$283,720	\$199,640	\$214,061
Total stockholders' equity	\$318,878	\$279,262	\$266,383	\$238,232	\$219,627

## Other Financial Data:

Our management monitors a number of financial and non-financial measures and ratios on a regular basis in order to track the progress of our business. We believe that the most important of these measures and ratios include gross margin, gross margin on product and services, operating income margin, net earnings, net earnings per common share, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted gross billings of product and services, and non-GAAP net

earnings per share. We use a variety of operating and other information to evaluate the operating performance of our business, develop financial forecasts, make strategic decisions, and prepare and approve annual budgets. These key indicators include financial information that is prepared in accordance with GAAP and presented in our consolidated financial statements as well as non-GAAP performance measurement tools.

Table of Contents

A summary of these key indicators which are not included in our consolidated financial statements is presented as follows, (dollars in thousands):

	For the years ended March 31,									
	2016		2015		2014		2013		2012	
Gross margin	21.8	%	21.4	%	20.5	%	20.8	%	20.8	%
Gross margin, product and services	19.9	%	19.4	%	18.3	%	18.0	%	17.9	%
Operating income margin	6.3	%	6.2	%	5.7	%	6.0	%	4.8	%
Adjusted gross billings of product and services (1)	\$1,556,463		\$1,435,039		\$1,276,133		\$1,163,577		\$978,180	
Non-GAAP: Net earnings (2)	\$46,480		\$42,529		\$35,925		\$35,423		\$23,568	
Non-GAAP: Net earnings per common share - diluted (2)	\$6.33		5.75		4.45		4.40		2.82	
Adjusted EBITDA (3)	\$81,299		\$75,043		\$62,890		\$61,134		\$41,239	
Adjusted EBITDA margin (3)	6.8	%	6.6	%	5.9	%	6.2	%	5.0	%
Purchases of property and equipment used internally	\$2,442		\$3,610		\$4,238		\$1,436		\$1,594	
Purchases of equipment under operating leases	12,026		8,163		5,714		14,148		6,061	
Total capital expenditures	\$14,468		\$11,773		\$9,952		\$15,584		\$7,655	

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

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

	For the years ended March 31,				
	2016	2015	2014	2013	2012
Sales of products and services	\$1,163,337	\$1,100,884	\$1,013,374	\$936,228	\$784,951
Costs incurred related to sales of third party services	393,126	334,155	262,759	227,349	193,229
Adjusted gross billings of product and services	\$1,556,463	\$1,435,039	\$1,276,133	\$1,163,577	\$978,180

(2) Non-GAAP net earnings per common share are based on net earnings calculated in accordance with GAAP, adjusted to exclude other income and acquisition related amortization expense, net of taxes. We use Non-GAAP net earnings per common share as a supplemental measure of our performance to gain insight into our operating

performance. We believe that the exclusion of other income and acquisition related amortization expense in calculating Non-GAAP net earnings per common share provides management and investors a useful measure for period-to-period comparisons of our core business and operating results by excluding items that are not comparable across reporting periods. Accordingly, we believe that non-GAAP net earnings per common share provide useful information to investors and others in understanding and evaluating our operating results. However, our use of Non-GAAP net earnings per common share as analytical tools has limitations, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under GAAP. In addition, other companies, including companies in our industry, might calculate Non-GAAP net earnings per common share or similarly titled measures differently, which may reduce their usefulness as comparative measures.

Table of Contents

	For the years ended March 31,				
	2016	2015	2014	2013	2012
GAAP: Earnings before provision for income taxes	\$75,751	\$78,313	\$60,098	\$58,745	\$39,574
Plus: Acquisition related amortization expense	2,917	1,888	1,110	1,000	340
Less: Other income	-	(7,603)	-	-	-
Non-GAAP: Earnings before provision for income taxes	78,668	72,598	61,208	59,745	39,914
Non-GAAP: Provision for income taxes	32,188	30,069	25,283	24,322	16,346
Non-GAAP: Net Earnings	\$46,480	\$42,529	\$35,925	\$35,423	\$23,568
GAAP: Net earnings per common share - diluted	\$6.09	\$6.19	\$4.37	\$4.32	\$2.79
Non-GAAP: Net earnings per common share - diluted	\$6.33	\$5.75	\$4.45	\$4.40	\$2.82

(3) We define Adjusted EBITDA as net earnings calculated in accordance with GAAP, adjusted for the following: interest expense, depreciation and amortization, provision for income taxes, and other income. We consider the interest on notes payable from our financing segment and depreciation expense presented within cost of sales, which includes depreciation on assets financed as operating leases, to be operating expenses. As such, they are not included in the amounts added back to net earnings in the Adjusted EBITDA calculation. We provide below a reconciliation of Adjusted EBITDA to net earnings, which is the most directly comparable financial measure to this non-GAAP financial measure. Adjusted EBITDA margin is our calculation of Adjusted EBITDA divided by net sales. We use Adjusted EBITDA as a supplemental measure of our performance to gain insight into our operating performance. We believe that the exclusion of other income in calculating Adjusted EBITDA and Adjusted EBITDA margin provides management and investors a useful measure for period-to-period comparisons of our core business and operating results by excluding items that are not comparable across reporting periods. Accordingly, we believe that Adjusted EBITDA and Adjusted EBITDA margin provide useful information to investors and others in understanding and evaluating our operating results. However, our use of Adjusted EBITDA and Adjusted EBITDA margin as analytical tools has limitations, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under GAAP. In addition, other companies, including companies in our industry, might calculate Adjusted EBITDA and Adjusted EBITDA margin or similarly titled measures differently, which may reduce their usefulness as comparative measures.

	For the years ended March 31,				
	2016	2015	2014	2013	2012
Net earnings	\$44,747	\$45,840	\$35,273	\$34,830	\$23,367
Provision for income taxes	31,004	32,473	24,825	23,915	16,207
Depreciation and amortization	5,548	4,333	2,792	2,389	1,665
Less: Other income	-	(7,603)	-	-	-
Adjusted EBITDA	\$81,299	\$75,043	\$62,890	\$61,134	\$41,239

Table of Contents

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

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

EXECUTIVE OVERVIEW

Business Description

ePlus and its consolidated subsidiaries provide leading information technology ("IT") products and services, flexible leasing and financing solutions, and enterprise supply management to enable our customers to optimize their IT infrastructure and supply chain processes.

We design, implement and provide IT solutions for our customers. We are focused primarily on specialized IT segments including data center infrastructure, networking, security, cloud and collaboration. Our solutions incorporate hardware and software products from multiple leading IT vendors. As our customers' IT requirements have grown increasingly complex, we have evolved our offerings by investing in our professional and managed services capabilities and by expanding our relationships with existing key vendors.

We continue to strengthen our relationships with vendors focused on emerging technologies, which have enabled us to provide our customers with new and evolving IT solutions. We are an authorized reseller from over 1,000 vendors, but primarily from approximately 100 vendors, including Check Point, Cisco Systems, Dell, EMC, FireEye, F5 Networks, Hewlett-Packard, Juniper, McAfee, NetApp, Nimble, Oracle, Palo Alto Networks, Pure Storage, VMware, and among many others. We possess top-level engineering certifications with a broad range of leading IT vendors that enable us to offer IT solutions that are optimized for each of our customers' specific requirements. Our proprietary software solutions allow our customers to procure, control and automate their IT solutions environment.

Financial Summary

During the year ended March 31, 2016, net sales increased 5.3% to \$1.2 billion, or an increase of \$60.9 million over the prior fiscal year. We had a 8.5% increase in Adjusted gross billings of products and services of \$1.56 billion for the year ended March 31, 2016, compared to \$1.44 billion last fiscal year. This increase in demand was offset by a shift in product mix, as a higher proportion of our sales consisted of third party software assurance, subscription licenses, maintenance and services, which are presented on a net basis. We believe that our growth outpaced the overall industry due to gains in market share through capturing additional customer spend, and focusing on faster growing segments within the market, such as virtualization, collaboration, and security. In addition, we added new customers as a result of our own organic sales and marketing efforts as well as through increased vendor referrals, and through acquisitions.

Consolidated gross margins were 21.8% for the year ended March 31, 2016, compared to 21.4% for the year ended March 31, 2015. The increase in gross margins was due to shifts in our product mix resulting from our continued focus on value added services for our customers, including the increase in sales of our advanced professional and managed services, and sales of third party maintenance agreements on core elements of our customers' IT environment.

Operating income increased \$5.0 million, or 7.1%, to \$75.8 million and operating margin increased by 10 basis points to 6.3%, as compared to the year ended March 31, 2015. Net earnings for the year ended March 31, 2016 decreased

2.4% to \$44.7 million, as compared to the year ended March 31, 2015. Net earnings for the year ended March 31, 2015 included other non-operating income of \$7.6 million, primarily due to a \$6.2 million payment received from a class action suit which alleged that a group of companies conspired to fix, raise, maintain or stabilize prices of certain flat panels used in many flat screen televisions, monitors and notebook computers.

Adjusted EBITDA increased \$6.3 million, or 8.3%, to \$81.3 million and Adjusted EBITDA margin increased 20 basis points to 6.8% for the year ended March 31, 2016, as compared to the prior period.

Diluted earnings per share decreased \$0.10 or 1.6% to \$6.09 per share for the year ended March 31, 2016, as compared to \$6.19 per share for the year ended March 31, 2015. Non-GAAP diluted earnings per share increased 10.0% to \$6.33 from \$5.75 in the prior year.

## Table of Contents

Cash and cash equivalents increased \$18.6 million, or 24.4%, to \$94.8 million at March 31, 2016 compared to March 31, 2015. The increase in our cash and cash equivalents was due to funds generated from operations, partially offset by \$16.6 million used to acquired certain assets and assumed certain liabilities of IGX Acquisition Global, LLC (“IGX Acquisition”), and IGX Support, LLC, including IGX Acquisition’s wholly-owned subsidiary, IGXGlobal UK Limited (collectively, “IGX”). Our cash on hand, funds generated from operations, amounts available under our credit facility and the possible monetization of our investment portfolio provide sufficient liquidity for our business.

## Segment Overview

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

### Technology Segment

The technology segment sells IT equipment and software and related services primarily to corporate customers, state and local governments, and higher education institutions on a nationwide basis, with geographic concentrations relating to our physical locations. The technology segment also provides Internet-based business-to-business supply chain management solutions for information technology products.

Customers who purchase IT equipment and services from us may have customer master agreements, or CMAs, with our company, which stipulate the terms and conditions of the relationship. Some CMAs contain pricing arrangements, and most contain mutual voluntary termination clauses. Our other customers place orders using purchase orders without a CMA in place or with other documentation customary for the business. Often, our work with state and local governments is based on public bids and our written bid responses. Our service engagements are generally governed by statements of work, and are primarily fixed price (with allowance for changes); however, some service agreements are based on time and materials.

We endeavor to minimize the cost of sales through incentive programs provided by vendors and distributors. The programs we qualify for are generally set by our reseller authorization level with the vendor. The authorization level we achieve and maintain governs the types of products we can resell as well as such items as pricing received, funds provided for the marketing of these products and other special promotions. These authorization levels are achieved by us through purchase volume, certifications held by sales executives or engineers and/or contractual commitments by us. The authorization levels are costly to maintain and these programs continually change and, therefore, there is no guarantee of future reductions of costs provided by these vendor consideration programs.

### Financing Segment

Our financing segment offers financing solutions to corporations, governmental entities, and educational institutions nationwide and also in Canada, Iceland, and beginning in April, 2016, the United Kingdom. The financing segment derives revenue from leasing IT and medical equipment and the disposition of that equipment at the end of the lease. The financing segment also derives revenues from the financing of third-party software licenses, software assurance, maintenance and other services.

Financing revenue generally falls into the following three categories:

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

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

#### Fluctuations in Operating Results

Our results of operations are susceptible to fluctuations for a number of reasons, including, without limitation, customer demand for our products and services, supplier costs, changes in vendor incentive programs, interest rate fluctuations, general economic conditions, and differences between estimated residual values and actual amounts realized related to the equipment we lease. Operating results could also fluctuate as a result of a sale prior to the expiration of the lease term to the lessee or to a third-party or from other post-term events.

## Table of Contents

We expect to continue to expand by opening new sales locations and hiring additional staff for specific targeted market areas in the near future whenever we can find both experienced personnel and desirable geographic areas. These investments may reduce our results from operations in the short term.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, or different assumptions were made, it is possible that alternative accounting policies would have been applied, resulting in a change in financial results. On an ongoing basis, we reevaluate our estimates, including those related to revenue recognition, residual values, vendor consideration, lease classification, goodwill and intangibles, reserves for credit losses and income taxes specifically relating to uncertain tax positions. We base estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. For all such estimates, we caution that future events rarely develop exactly as forecasted, and therefore, these estimates may require adjustment.

We consider the following accounting policies important in understanding the potential impact of our judgments and estimates on our operating results and financial condition. For additional information on these and other accounting policies, see Note 1, "Organization and Summary of Significant Accounting Policies" to the consolidated financial statements included elsewhere in this report.

**REVENUE RECOGNITION.** The majority of our revenues are derived from the following sources: sales of third-party products, software, software assurance, maintenance and services; sales of our advanced professional and managed services; sales of licenses of our software, and financing revenues. For all these revenue sources, we determine whether we are the principal or agent in accordance with Codification Topic, Revenue Recognition, Subtopic Principal Agent Considerations. Our revenue recognition policies vary based upon these revenue sources and the mischaracterization of these products and services could result in misapplication of revenue recognition policies.

For arrangements with multiple elements, we allocate the total consideration to the deliverables based on an estimated selling price. We determine the estimated selling price using cost plus a reasonable margin for each deliverable, which is based on our established policies and procedures for providing customers with quotes, as well as on historical data.

Generally, sales of third-party products and software are recognized on a gross basis with the selling price to the customer recorded as sales and the acquisition cost of the product or software recorded as cost of sales. Revenue is recognized when the title and risk of loss are passed to the customer, there is persuasive evidence of an arrangement for sale, delivery has occurred, the sales price is fixed or determinable and collectability is reasonably assured. Delivery for products is typically performed via drop-shipment by the vendor or distributor to our customers' location, and for software via electronic delivery. Using these tests, the vast majority of our sales are recognized upon delivery due to our sales terms with our customers. We estimate the product delivered to our customers at the end of each quarter based upon an analysis of current quarter and historical delivery dates.

We sell software assurance, subscription licenses, maintenance and service contracts where the services are performed by a third party. Software assurance is a service that allows customers to upgrade at no additional cost to the latest technology, if new applications are introduced during the period for which the software assurance is in effect. As we enter into contracts with third-party service providers, we evaluate whether we are acting as a principal or agent in the transaction. We conclude that we are acting as an agent and recognize revenue on a net basis at the date of sale when we are not responsible for the day-to-day provision of services in these arrangements and our customers are aware that the third-party service provider will provide the services to them.

We provide ePlus advanced professional services under both time and materials and fixed price contracts. Under time and materials contracts, we recognize revenue at agreed-upon billing rates at the time services are performed. Under certain fixed price contracts, we recognize revenue based on the proportion of the services delivered to date as a percentage of the total services to deliver over the contract term. Using this method requires a determination of the appropriate input or output method to measure progress. When using an input method such as costs, we must estimate the inputs required over the entire term. Under other fixed price contracts, we recognize revenue upon completion. Revenues from other ePlus services, such as maintenance, managed services and hosting services are recognized on a straight-line basis over the term of the arrangement.

### Table of Contents

Financing revenues include income earned from investments in leases, leased equipment, and financed third-party software and services. We classify our investments in leases and leased equipment as either direct financing lease, sales-type lease, or operating lease, as appropriate. Revenue on direct financing and sales-type leases is deferred at the inception of the leases and is recognized over the term of the lease using the interest method. Revenue on operating leases is recorded on a straight line basis over the lease term. We classify third-party software, maintenances, and services that we finance for our customers as notes receivable and recognize interest income over the term of the arrangement using the effective interest method.

We account for the transfer of financial assets as sales or secured borrowings in accordance with Transfers and Servicing in the Codification. For transfers that qualify for sale treatment, we recognize a net gain on the later of the effective date of the transfer or the date that the transfer meets all the criteria for a sale.

**RESIDUAL VALUES.** Residual values represent our estimated value of the equipment at the end of the initial lease term. Our estimated residual values will vary, both in amount and as a percentage of the original equipment cost, and depend upon several factors, including the equipment type, vendor's discount, market conditions, lease term, equipment supply and demand, and new product announcements by vendors.

We evaluate residual values on a quarterly basis and record any required impairments of residual value, in the period in which the impairment is determined. No upward adjustment to residual values is made subsequent to lease inception.

**GOODWILL.** Goodwill represents the premium paid over the fair value of net tangible and intangible assets we have acquired in business combinations. We review our goodwill for impairment annually, or more frequently if indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in our share price and market capitalization, a decline in our expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition, and/or slower growth rates, among others.

We first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Qualitative factors we consider include, but are not limited to, macroeconomic conditions, industry and market conditions, company specific events, changes in circumstances, after tax cash flows and market capitalization.

If the qualitative factors indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we perform the two step process to assess our goodwill for impairment. First, we compare the fair value of each of our reporting units with its carrying value. We estimate the fair value of the reporting unit using various valuation methodologies, including discounted expected future cash flows. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired, and no further testing is necessary. If the net book value of a reporting unit exceeds its fair value, we perform a second test to measure the amount of impairment loss, if any. To measure the amount of any impairment loss, we determine the fair value of goodwill in the same manner as if our reporting unit were being acquired in a business combination. Specifically, we allocate the fair value of the reporting unit to all of the assets and liabilities of that unit, including any unrecognized intangible assets, in a hypothetical calculation that would yield the estimated fair value of goodwill. If the estimated fair value of goodwill is less than the goodwill recorded on our balance sheet, we record an impairment charge for the difference.

During the quarter ended December 31, 2015, we performed a qualitative assessment for goodwill and concluded that the fair value of our reporting units, more likely than not, significantly exceed their respective carrying amounts as of October 1, 2015. During the quarter ended December 31, 2014, we elected to bypass the qualitative assessment of goodwill and estimate the fair values of the reporting units. The fair value of our reporting units substantially exceeded their respective carrying values, and our conclusions regarding the recoverability of goodwill would not be

impacted by a ten percent change in their fair values.

VENDOR CONSIDERATION. We receive payments and credits from vendors and distributors, including consideration pursuant to volume incentive programs, and shared marketing expense programs. Many of these programs extend over one or more quarters' sales activities. Different programs have different vendor/program specific goals to achieve. We estimate the amount of vendor consideration earned when it is probable and reasonably estimable using the best information available, including historical data.

30

---

Table of Contents

Vendor consideration received pursuant to volume incentive programs is allocated to inventories based on the applicable incentives from each vendor and is recorded in cost of sales of product and services, as the inventory is sold. Vendor consideration received pursuant to shared marketing expense programs is recorded as a reduction of the related selling and administrative expenses in the period the program takes place only if the consideration represents a reimbursement of specific, incremental, identifiable costs. Consideration that exceeds the specific, incremental, identifiable costs is classified as a reduction of cost of sales, product and services on our consolidated statements of operations.

**RESERVES FOR CREDIT LOSSES.** We maintain our reserves for credit losses at a level believed to be adequate to absorb potential losses inherent in the respective balances. We assign an internal credit quality rating to all new customers and update these ratings regularly, but no less than annually. Management's determination of the adequacy of the reserve for credit losses for our accounts receivable is based on the age of the receivable balance, the customer's credit quality rating, an evaluation of historical credit losses, current economic conditions, and other relevant factors.

Management's determination of the adequacy of the reserve for credit losses for financing receivables may be based on the following factors: an internally assigned credit quality rating, historical credit loss experience, current economic conditions, volume, growth, the composition of the lease portfolio, the fair value of the underlying collateral, and the funding status (i.e. not funded, funded on a recourse or partial recourse basis, or funded on non-recourse basis), and other relevant factors.

The reserve for credit losses as of March 31, 2016 and March 31, 2015 included a specific reserve of \$3.2 million due to one specific customer, which filed for bankruptcy in May 2012.

**INCOME TAXES.** We make certain estimates and judgments in determining income tax expense for financial statement reporting purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which principally arise from differences in the timing of recognition of revenue and expense for tax and financial statement reporting purposes. We also must analyze income tax reserves, as well as determine the likelihood of recoverability of deferred tax assets, and adjust any valuation allowances accordingly.

Considerations with respect to the recoverability of deferred tax assets include the period of expiration of the tax asset, planned use of the tax asset, and historical and projected taxable income as well as tax liabilities for the tax jurisdiction to which the tax asset relates. Valuation allowances are evaluated periodically and will be subject to change in each future reporting period as a result of changes in one or more of these factors. The calculation of our tax liabilities also involves considering uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain income tax positions based on our estimate of whether, and the extent to which, additional taxes will be required.

**BUSINESS COMBINATIONS.** We account for business combinations using the acquisition method, which requires that the total purchase price of each of the acquired entities be allocated to the assets acquired and liabilities assumed based on their fair values at the acquisition date. Our determination of the purchase price for the acquired business may include an estimate of the fair value of contingent consideration. The allocation process requires an analysis of intangible assets, customer relationships, trade names, acquired contractual rights and assumed contractual commitments and legal contingencies to identify and record all assets acquired and liabilities assumed at their fair value.

Any excess of consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed is recorded as goodwill. The results of operations for an acquired company are included in our financial statements from the date of acquisition. See Note 14, "Business Combinations" of this Form 10-K for additional information on current acquisitions.

RECENT ACCOUNTING PRONOUNCEMENTS

The information set forth in Note 2, “Recent Accounting Pronouncements” to the accompanying Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K is incorporated herein by reference.

31

---

Table of Contents

## RESULTS OF OPERATIONS

The Year Ended March 31, 2016 Compared to the Year Ended March 31, 2015

Technology Segment

The results of operations for our technology segment for the years ended March 31, 2016 and 2015 were as follows (in thousands):

	Year Ended March 31,		Change	
	2016	2015		
Sales of product and services	\$1,163,337	\$1,100,884	\$62,453	5.7 %
Fee and other income	5,728	7,565	(1,837 )	(24.3 %)
Net sales	1,169,065	1,108,449	60,616	5.5 %
Cost of sales, product and services	931,782	887,673	44,109	5.0 %
Gross profit	237,283	220,776	16,507	7.5 %
Professional and other fees	5,505	5,340	165	3.1 %
Salaries and benefits	140,086	128,945	11,141	8.6 %
General and administrative	22,401	21,127	1,274	6.0 %
Depreciation and amortization	5,532	4,310	1,222	28.4 %
Interest and financing costs	70	96	(26 )	(27.1 %)
Operating expenses	173,594	159,818	13,776	8.6 %
Operating income	\$63,689	\$60,958	\$2,731	4.5 %
Adjusted EBITDA	\$69,221	\$65,268	\$3,953	6.1 %

Net sales: Net sales for the year ended March 31, 2016 increased by \$60.6 million or 5.5% to \$1,169.1 million due to an increase in demand for products and services from our large and middle-market customers. Sales of product and services increased 5.7% due to an 8.5% increase in Adjusted gross billings of product and services to \$1.56 billion from \$1.44 billion last year, which was offset by a shift in product mix, as a higher proportion of our sales consisted of third party software assurance, maintenance and services, which are presented on a net basis.

We realized year over year growth for sales of product and services for two quarters during the year ended March 31, 2016, and small declines for the remaining two quarters. We experienced a large sequential increase in the quarterly sales of product and services during the second the quarter for the year ended March 31, 2016, followed by a decrease during the third quarter of the fiscal year, and a small increase in fourth quarter sales of product and services. Fourth quarter sales of product and services was 13.3% higher than prior year primarily due to increased customer demand from our technology, financial services, and health care customers as compared to prior year.

The sequential and year over year change in sales of product and services is summarized below:

Quarter Ended	Sequential	Year over Year
March 31, 2016	1.3 %	13.3 %
December 31, 2015	(11.2 %)	(2.6 %)
September 30, 2015	24.9 %	13.1 %
June 30, 2015	0.9 %	(0.6 %)

Edgar Filing: EPLUS INC - Form 10-K

March 31, 2015 (13.0 %) 3.2 %

We rely on our vendors or distributors to fulfill a large majority of our shipments to our customers. As of March 31, 2016, we had open orders of \$109.4 million and deferred revenue of \$19.5 million. As of March 31, 2015, we had open orders of \$74.9 million and deferred revenues of \$37.0 million. The decrease of \$17.5 million in deferred revenues as of March 31, 2016 as compared to the prior year is due to purchases of equipment that had been invoiced to our customers but had not yet been delivered as of March 31, 2015.

32

---

Table of Contents

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

	FY16	FY15	Change
<u>Revenue by customer end market:</u>			
Technology	23 %	19 %	4 %
Telecom, Media & Entertainment	14 %	18 %	(4 %)
Financial Services	12 %	10 %	2 %
SLED	22 %	22 %	-
Health Care	10 %	10 %	-
Other	19 %	21 %	(2 %)
Total	100%	100%	
<u>Revenue by vendor:</u>			
Cisco Systems	49 %	49 %	-
Hewlett Packard	7 %	8 %	(1 %)
NetApp	5 %	7 %	(2 %)
Sub-total	61 %	64 %	(3 %)
Other	39 %	36 %	3 %
Total	100%	100%	

Our revenues by customer end market have remained consistent over the year as approximately 80% of our revenues were generated from customers within the five end markets identified above. In fiscal year 2016 we had an increase in revenues from customers in the technology and financial services industries, offset by decreases in the telecommunications, media and entertainment industry. These changes were driven by changes in customer buying cycles and specific IT related initiatives, rather than the acquisition or loss of a customer or set of customers. No customer accounted for more than 10% of our revenues in fiscal year 2016 or 2015.

The majority of our revenues by vendor are derived from Cisco Systems, Hewlett Packard and NetApp, which in total, declined to 61% of our in fiscal year 2016 from 64% last year. This decrease is due to competition and developments in the IT industry. None of the vendors included within the “other” category exceeded 3% of total revenues

Cost of sales, product and services: The 5.0% increase in cost of sales, product and services was due to the increase in sales of product and services, combined with an improvement in gross margins. Our gross margin on the sale of product and services increased 50 basis points to 19.9% for the year ended March 31, 2016, from 19.4% in the prior year due to an increase in sales of third-party software assurance, maintenance, and services, for which the revenues are presented on a net basis, as well as increases in revenues from our professional and managed service. The change in product mix added 30 basis points to the gross margin and increases in professional and managed services revenues improved gross margin by 50 basis points. This was partially offset by a 30 basis point decrease in vendor incentives earned as a percentage of sales of product and services for the year ended March 31, 2016 compared to the prior year.

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

Operating expenses: Total operating expenses of \$173.6 million for the year ended March 31, 2016 increased by \$13.8 million or 8.6% from the prior year. Professional and other fees increased \$0.2 million, or 3.1%, to \$5.5 million, compared to \$5.3 million during the prior year due in part to outside services related to the IGX acquisition.

Salaries and benefits increased \$11.1 million or 8.6% to \$140.1 million, compared to \$128.9 million during the prior year. Approximately 21% of this increase was due to higher variable compensation due to the increase in gross profit, and the remaining increase was due to an increase in the number of employees. Our technology segment had 1,020 employees as of March 31, 2016, an increase of 84, or 9.0%, from 936 at March 31, 2015, of which 83 of the positions added in the past year relate to sales, marketing, and professional services personnel.

General and administrative expenses increased \$1.3 million, or 6.0%, to \$22.4 million during the fiscal year ended March 31, 2016 compared to \$21.1 million the prior year. The additional costs are substantially due to our expanding geographical presence. We also incurred additional expenses due to increases in personnel, including communications, and travel and entertainment expenses.

Table of Contents

Depreciation and amortization expense: Depreciation and amortization expense increased \$1.2 million, or 28.4%, to \$5.5 million during the fiscal year ended March 31, 2016 compared to \$4.3 million in the prior year. The increase in depreciation and amortization expense is related to the acquisition of IGX in December, 2015 and Evolve in August, 2014.

Segment earnings: As a result of the foregoing, operating income increased \$2.7 million, or 4.5%, to \$63.7 million for the year ended March 31, 2016 and Adjusted EBITDA increased 6.1% to \$69.2 million for the year ended March 31, 2016.

Financing Segment

The results of operations for our financing segment for the years ended March 31, 2016 and 2015 were as follows (in thousands):

	Year Ended March 31,			
	2016	2015	Change	
Financing revenue	\$35,091	\$34,728	\$363	1.0 %
Fee and other income	43	105	(62 )	(59.0%)
Net sales	35,134	34,833	301	0.9 %
Direct lease costs	10,360	11,062	(702 )	(6.3 %)
Gross profit	24,774	23,771	1,003	4.2 %
Professional and other fees	1,041	1,168	(127 )	(10.9%)
Salaries and benefits	9,218	9,141	77	0.8 %
General and administrative	729	1,404	(675 )	(48.1%)
Depreciation and amortization	16	23	(7 )	(30.4%)
Interest and financing costs	1,708	2,283	(575 )	(25.2%)
Operating expenses	12,712	14,019	(1,307)	(9.3 %)
Operating income	\$12,062	\$9,752	\$2,310	23.7 %
Adjusted EBITDA	\$12,078	\$9,775	\$2,303	23.6 %

Net sales: Net sales increased by \$0.3 million, or 0.9%, to \$35.1 million for the year ended March 31, 2016 due to an increase in financing revenue partially offset by slightly lower fees and other income. The increase in financing revenues was due to both higher post-contract earnings, and higher transactional gains, which were mostly offset by lower portfolio earnings. Post-contract earnings increased by \$1.6 million to \$11.9 million due mainly to higher renewal rentals over the prior year. Transactional gains increased \$1.2 million for the year ended March 31, 2016 from \$5.9 million in the prior year due to gains on an increased volume of sales of financing receivables. Total proceeds from sales of financing receivables were \$223.3 million and \$181.3 million for the years ended March 31, 2016 and 2015, respectively. Portfolio earnings decreased \$1.9 million to \$15.8 million for the year ended March 31, 2016 compared to the prior year, mainly due to a decrease in operating lease revenues.

Our total financing receivables and operating leases decreased as of March 31, 2016 to \$132.4 million from \$143.9 million in the prior year, which was mostly due to a reduction in our holdings of notes receivables that decreased \$13.4 million to \$43.4 million.

Direct lease costs: Direct lease costs decreased 6.3% or \$0.7 million for the year ended March 31, 2016 as compared to the prior year, due to a decrease in depreciation expense related to a lower volume of operating lease revenues. Gross profit increased \$1.0 million or 4.2% due to higher post contract earnings and higher transactional

gains, partially offset by lower portfolio earnings compared to the prior year.

Operating expenses: For the year ended March 31, 2016, operating expenses decreased \$1.3 million or 9.3%, primarily due to both lower interest and financing costs and higher reserves for credit losses in the prior year stemming from an increase in our portfolio balance. Professional and other fees decreased by \$0.1 million or 10.9% to \$1.0 million due to lower outside services fees. Salaries and benefits increased by \$0.1 million, or 0.9%, to \$9.2 million due to an increase in personnel in the second half of the fiscal year. Our financing segment employed 54 people as of March 31, 2016 compared to 50 employees as of March 31, 2015. General and administrative expenses decreased \$0.7 million primarily due to lower reserves for credit losses and cost control.

Table of Contents

Interest and financing costs: Costs decreased \$0.6 million or 25.2% to \$1.7 million during the year ended March 31, 2016, as compared to \$2.3 million during the prior year. Our total notes payable decreased as of March 31, 2016, and our average balance of notes payable outstanding during the year was lower than during the year ended March 31, 2015. Our weighted average interest rate for our notes payable was 3.13% as of March 31, 2016 compared to 3.23% for March 31, 2015.

Segment earnings: As a result of the foregoing, operating income increased \$2.3 million, or 23.7%, to \$12.1 million for the year ended March 31, 2016 and Adjusted EBITDA increased 23.6% to \$12.1 million for the year ended March 31, 2016.

Consolidated

Other income: We reported no other income for the year ended March 31, 2016 compared to \$7.6 million in the prior year. On October 31, 2014, we received payment in the amount of \$6.2 million related to our claim in a class action suit which alleged that a group of companies conspired to fix, raise, maintain or stabilize prices of certain flat panels used in many flat screen televisions, monitors and notebook computers.

In April 2014, we entered into an arrangement to repurchase the rights, title, and interest to payments due under a financing arrangement. This financing arrangement 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.

Income taxes: Our effective income tax rates for the years ended March 31, 2016 and 2015 were 40.9% and 41.5%, respectively. The decrease in effective income tax rate is primarily due to changes in state apportionment factors.

Net earnings: Net earnings were \$44.7 million for the year ended March 31, 2016, a decrease of 2.4% or \$1.1 million as compared to \$45.8 million in the prior fiscal year, due to \$7.6 million in other income in the prior year.

Basic and fully diluted earnings per common share were \$6.17 and \$6.09, respectively, for the year ended March 31, 2016. Basic and fully diluted earnings per common share were \$6.26 and \$6.19, respectively, for the year ended March 31, 2015.

Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the year ended March 31, 2016 were 7.3 million. Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the year ended March 31, 2015 were 7.3 million and 7.4 million, respectively.

Table of Contents

The Year Ended March 31, 2015 Compared to the Year ended March 31, 2014

Technology Segment

The results of operations for our technology segment for the years ended March 31, 2015 and 2014 were as follows (in thousands):

	Year Ended March 31,			
	2015	2014	Change	
Sales of product and services	\$1,100,884	\$1,013,374	\$87,510	8.6 %
Fee and other income	7,565	8,037	(472 )	(5.9 %)
Net sales	1,108,449	1,021,411	87,038	8.5 %
Cost of sales, product and services	887,673	827,875	59,798	7.2 %
Gross profit	220,776	193,536	27,240	14.1 %
Professional and other fees	5,340	7,557	(2,217 )	(29.3 %)
Salaries and benefits	128,945	113,481	15,464	13.6 %
General and administrative	21,127	18,334	2,793	15.2 %
Depreciation and amortization	4,310	2,769	1,541	55.7 %
Interest and financing costs	96	84	12	14.3 %
Operating expenses	159,818	142,225	17,593	12.4 %
Operating income	\$60,958	\$51,311	\$9,647	18.8 %
Adjusted EBITDA	\$65,268	\$54,080	\$11,188	20.7 %

Net sales: Net sales for the year ended March 31, 2015 increased by \$87.0 million to \$1,108.4 million due to an increase in demand for products and services from our large and middle-market customers. Sales of product and services increased 8.6% due to a 12.5% increase in Adjusted gross billings of product and services to \$1.44 billion from \$1.28 billion last year, which was offset by a shift in product mix, as a higher proportion of our sales consisted of third party software assurance, maintenance and services, which are presented on a net basis. We had year over year growth in our quarterly sales of product and services for all quarters during the year ended March 31, 2015.

We experienced sequential increases in quarterly sales of product and services during the first three quarters of the year ended March 31, 2015 and a decrease during the fourth quarter. The sequential decrease in net sales for our fourth quarter over the prior quarter is primarily due to changes in customer demand as the IT spending cycle for many of our commercial customers tends to increase towards the end of their fiscal (calendar) years.

The sequential and year over year change in sales of product and services is summarized below:

Quarter Ended	Sequential	Year over Year
March 31, 2015	(13.0 %)	3.2 %
December 31, 2014	3.2 %	15.6 %
September 30, 2014	9.7 %	9.7 %
June 30, 2014	4.8 %	5.8 %
March 31, 2014	(2.5 %)	11.4 %

We rely on our vendors or distributors to fulfill a large majority of our shipments to our customers. As of March 31, 2015, we had open orders of \$74.9 million and deferred revenue of \$37.0 million. As of March 31, 2014, we had open orders of \$81.4 million and deferred revenues of \$23.2 million. The increase of \$13.8 million in deferred revenues as of March 31, 2015 over the prior year is due to purchases of equipment that have been invoiced to our customers but had yet to be delivered as of March 31, 2015.

Table of Contents

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

	FY15	FY14	Change
<u>Revenue by customer end market:</u>			
Technology	19 %	21 %	(2 %)
Telecom, Media & Entertainment	18 %	18 %	-
Financial Services	10 %	11 %	(1 %)
SLED	22 %	20 %	2 %
Health Care	10 %	11 %	(1 %)
Other	21 %	19 %	2 %
Total	100%	100%	
<u>Revenue by vendor :</u>			
Cisco Systems	49 %	48 %	1 %
Hewlett Packard	8 %	10 %	(2 %)
NetApp	7 %	8 %	(1 %)
Sub-total	64 %	66 %	(2 %)
Other	36 %	34 %	2 %
Total	100%	100%	

Our revenues by customer end market have remained consistent over the year as approximately 80% of our revenues were generated from customers within the five end markets identified above. In fiscal year 2015 we had an increase in revenues from customers in the SLED industry, offset by decreases in the technology industry. These changes were driven by changes in customer buying cycles and specific IT related initiatives; rather than the acquisition or loss of a customer or set of customers. No customer accounted for more than 10% of our revenues in fiscal year 2015 or 2014.

The majority of our revenues by vendor are derived from Cisco Systems, Hewlett Packard and NetApp, which in total, declined to 64% of our in fiscal year 2015 from 66% last year. This decrease is due to competition and developments in the IT industry. None of the vendors included within other exceeded 3% of total revenues.

Cost of sales, product and services: The 7.2% increase in cost of sales, product and services, was due to the increase in sales of product and services, combined with an increase in margins. Our gross margin on the sale of product and services increased to 19.4% for the year ended March 31, 2015, from 18.3% in the prior year due to an increase in sales of third-party software assurance, maintenance, and services, for which the revenues are presented on a net basis, as well as increases in revenues from our professional and managed service. There was a 0.1% increase in the percentage of vendor incentives earned as a percentage of sales of product and services for the year ended March 31, 2015 compared to the prior year.

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

Operating expenses: Total operating expenses of \$159.8 million for the year ended March 31, 2015 increased by \$17.6 million or 12.4% from the prior year. Professional and other fees decreased \$2.2 million, or 29.3%, to \$5.3 million, compared to \$7.6 million during the prior year due to \$1.9 million of fees incurred in the prior period related to a patent infringement litigation.

Salaries and benefits increased \$15.5 million or 13.6% to \$128.9 million, compared to \$113.5 million during the prior year. Approximately 48% of this increase was due to higher variable compensation due to the increase in gross profit,

and the remaining increase was due to an increase in the number of employees. Our technology segment had 936 employees as of March 31, 2015, an increase of 57, or 6.5%, from 879 at March 31, 2014, of which 88% of the positions added in the past year relate to sales, marketing, and professional services personnel.

General and administrative expenses increased \$4.3 million, or 20.5%, to \$25.4 million during the fiscal year ended March 31, 2015 compared to \$21.1 million the prior year.

Table of Contents

Depreciation and amortization expense: The increase in depreciation and amortization expense is primarily due to \$1.5 million of additional costs due related to the acquisition of Evolve in August, 2014, the acquisition of Advistor in November, 2013 and our next generation data center that went live in February, 2014. We also incurred additional expenses due to increases in personnel, including communications, and travel and entertainment expenses.

Segment earnings: As a result of the foregoing, operating income increased \$9.6 million, or 18.8%, to \$61.0 million and Adjusted EBITDA increased \$11.2 million or 20.7% to \$65.3 million for the year ended March 31, 2015.

Financing Segment

The results of operations for our financing segment for the years ended March 31, 2015 and 2014 were as follows (in thousands):

	Year Ended March 31,			
	2015	2014	Change	
Financing revenue	\$34,728	\$35,896	\$(1,168)	(3.3 %)
Fee and other income	105	229	(124)	(54.1 %)
Net sales	34,833	36,125	(1,292)	(3.6 %)
Direct lease costs	11,062	12,748	(1,686)	(13.2 %)
Gross profit	23,771	23,377	394	1.7 %
Professional and other fees	1,168	1,484	(316)	(21.3 %)
Salaries and benefits	9,141	9,670	(529)	(5.5 %)
General and administrative	1,404	1,549	(145)	(9.4 %)
Depreciation and amortization	23	23	-	0.0 %
Interest and financing costs	2,283	1,864	419	22.5 %
Operating expenses	14,019	14,590	(571)	(3.9 %)
Operating income	\$9,752	\$8,787	\$965	11.0 %
Adjusted EBITDA	\$9,775	\$8,810	\$965	11.0 %

Net sales: Net sales decreased by \$1.3 million, or 3.6%, to \$34.8 million for the year ended March 31, 2015 due to a decrease in both financing revenue and fee and other income. The decrease in financing revenues was due to lower transactional gains, partially offset by higher post-contract earnings. Transactional gains decreased to \$5.9 million for the year ended March 31, 2015 from \$8.5 million in the prior year due to lower margins realized on sales of financing receivables. Total proceeds from sales of financing receivables were \$181.3 million and \$187.2 million for the years ended March 31, 2015 and 2014, respectively. Post-contract earnings increased to \$10.3 million for the year ended March 31, 2015 from \$8.8 million in the prior year, due to an increase in renewal rent.

Our total financing receivables and operating leases increased slightly as of March 31, 2015 to \$143.9 million from \$143.7 million in the prior year, which was due to originations during the year, offset by repayments and sales of financial assets.

Direct lease costs: Direct lease costs decreased 13.2% or \$1.7 million for the year ended March 31, 2015 as compared to the prior year, due to a decrease in depreciation expense related to a lower volume of operating lease revenues. Gross profit increased \$0.4 million due to a reduction in direct lease cost for the year ended March 31, 2015 of \$1.7 million principally due to lower depreciation for assets under operating leases compared to the prior year. Lower revenue of \$1.3 million mostly offset the decrease in direct lease costs for the year ended March 31, 2015.

Operating expenses: For the year ended March 31, 2015, operating expenses decreased \$0.6 million, or 3.9% as decreases in professional fees and salaries and benefits were offset by higher interest and financing costs. Professional and other fees decreased by \$0.3 million or 21.3% to \$1.2 million due to lower legal fees. Salaries and benefits decreased by \$0.5 million, or 5.5%, to \$9.1 million due a slight decrease in personnel. Our financing segment employed 50 people as of March 31, 2015 compared to 55 employees as of March 31, 2014. General and administrative expenses decreased \$0.1 million primarily due to lower reserves for credit losses.

### Table of Contents

Interest and financing costs increased \$0.4 million or 22.5% to \$2.3 million during the year ended March 31, 2015, as compared to \$1.9 million during the prior year. While total notes payable decreased as of March 31, 2015, our average balance of notes payable outstanding during the year was higher due to additional borrowings in the fourth quarter of fiscal year 2014. Our weighted average interest rate for our notes payable was 3.23% as of March 31, 2015 compared to 3.48% for March 31, 2014.

Segment earnings: As a result of the foregoing, both operating income and Adjusted EBITDA increased \$1.0 million, or 11.0%, to \$9.8 million.

### Consolidated

Other income: On October 31, 2014, we received payment in the amount of \$6.2 million related to our claim in a class action suit which alleged that a group of companies conspired to fix, raise, maintain or stabilize prices of certain flat panels used in many flat screen televisions, monitors and notebook computers.

In April 2014, we entered into an arrangement to repurchase the rights, title, and interest to payments due under a financing arrangement. This financing arrangement 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.

Income taxes: Our effective income tax rates for the years ended March 31, 2015 and 2014 were 41.5% and 41.3%, respectively. The increase in effective income tax rate is primarily due to changes in state apportionment factors.

Net earnings: Net earnings were \$45.8 million for the year ended March 31, 2015, an increase of 30.0% as compared to \$35.3 million in the prior fiscal year.

Basic and fully diluted earnings per common share were \$6.26 and \$6.19, respectively, for the year ended March 31, 2015. Basic and fully diluted earnings per common share were \$4.41 and \$4.37, respectively, for the year ended March 31, 2014.

Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the year ended March 31, 2015 were 7.3 million and 7.4 million and for the year ended March 31, 2014 were, 7.9 million and 8.0 million, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity Overview

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

Our subsidiary ePlus Technology, inc., part of our technology segment, finances its operations with funds generated from operations, and with a credit facility with Wells Fargo Commercial Distribution Finance, LLC or (“WFCDF”). (f/k/a GE Commercial Distribution Finance LLC). ePlus Technology, inc’s agreement with WFCDF has an aggregate credit limit of \$250 million. There are two components of this facility: (1) a floor plan component; and (2) an accounts receivable component. After a customer places a purchase order with us and we have completed our credit check, we place an order for the equipment with one of our vendors. Generally, most purchase orders from us to our vendors are

first financed under the floor plan component and reflected in “accounts payable—floor plan” in our consolidated balance sheets. Payments on the floor plan component are due on three specified dates each month, generally 30-60 days from the invoice date. On the due date of the invoices financed by the floor plan component, the invoices are paid by the accounts receivable component of the credit facility. The balance of the accounts receivable component is then reduced by payments from our available cash. The outstanding balance under the accounts receivable component is recorded as recourse notes payable on our consolidated balance sheets. There was no outstanding balance at March 31, 2016 or March 31, 2015, while the maximum credit limit was \$30.0 million for both periods. The borrowings and repayments under the floor plan component are reflected as “net borrowings on floor plan facility” in the cash flows from financing activities section of our consolidated statements of cash flows.

Table of Contents

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

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

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

## Cash Flows

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

	Year Ended March 31,		
	2016	2015	2014
Net cash provided by (used in) operating activities	\$13,382	\$13,847	\$(8,223 )
Net cash used in investing activities	(50,179)	(30,592)	(28,797)
Net cash provided by financing activities	55,176	12,820	64,459
Effect of exchange rate changes on cash	212	(79 )	20
Net increase (decrease) in cash and cash equivalents	\$18,591	\$(4,004 )	\$27,459

Cash flows from operating activities. Cash provided by operating activities totaled \$13.4 million in the year ended March 31, 2016. Net earnings adjusted for the impact of non-cash items was \$54.3 million. Net changes in assets and liabilities resulted in a decrease to cash of \$40.9 million, primarily due to cash used for financing receivables of \$9.3 million, and additional working capital needs in our technology segment. The change in financing receivables included within cash flows from operations consists of assets financed by our financing segment that were purchased through our technology segment.

Cash provided by operating activities totaled \$13.8 million in the year ended March 31, 2015. Net earnings adjusted for the impact of non-cash items was \$45.5 million. Net changes in assets and liabilities resulted in a decrease to cash of \$31.6 million, primarily due to cash used for financing receivables of \$19.6 million, and additional working capital needs in our technology segment. The change in financing receivables included within cash flows from operations consists of assets financed by our financing segment that were purchased through our technology segment.

Cash used in operating activities totaled \$8.2 million in the year ended March 31, 2014. Net earnings adjusted for the impact of non-cash items was \$33.7 million. Net changes in assets and liabilities resulted in a decrease to cash of \$41.9 million, primarily due to cash used for financing receivables of \$30.8 million, which is used by our financing segment for investments in notes receivables and leases, and additional working capital needs in our technology segment.



Table of Contents

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

	As of March 31,		
	2016	2015	2014
Days sales outstanding (1)	56	60	53
Days inventory outstanding (2)	7	8	7
Days payable outstanding (3)	(45)	(45)	(41)
Cash conversion cycle	18	23	19

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

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

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

Our standard payment term for customers is between 30-60 days; however, certain customers or orders may be approved for extended payment terms. Invoices processed through our credit facility, or the A/P-floor plan balance, are typically paid within 45-60 days from the invoice date, while A/P trade invoices are typically paid within 30 days from the invoice date.

Our cash conversion cycle decreased to 18 days at March 31, 2016, compared to 23 days at March 31, 2015, primarily driven by a decrease in DSO. Our DSO as of March 31, 2016 was impacted by an increase in Adjusted gross billings of product and services of 17.4% over the prior year’s fourth quarter, while the average accounts receivable trade balance only increased 9.4% for the same period. The remaining decrease in our DSO was due to timing of collections.

Our cash conversion cycle increased to 23 days at March 31, 2015, compared to 19 days at March 31, 2014, primarily driven by an increase in DSO, which was partially offset by an increase in DPO. Our DSO as of March 31, 2015 was negatively impacted by an increase in deferred revenues, which was due to certain equipment orders for which delivery had not occurred as of March 31, 2015. The remaining increase in our DSO was due to timing of collections. The increase in DPO was due to an increase in the average balance of invoices processed through our credit facility.

Cash flows related to investing activities. Cash used in investing activities was \$50.2 million during the year ended March 31, 2016, primarily due to net issuances of financing receivables of \$14.6 million, purchases of property, equipment, and operating lease equipment, and assets to be leased of \$25.9 million and cash used in acquisitions, net of cash acquired of \$16.6 million, partially offset by proceeds from sale of property, equipment, and operating lease equipment of \$6.9 million. The net issuance of financing receivables included within cash flows from investing activities consists of assets financed by our financing segment that were purchased from third party vendors.

Cash used in investing activities was \$30.6 million during the year ended March 31, 2015, primarily due to net issuances of financing receivables of \$21.7 million, purchases of property, equipment, and operating lease equipment, and assets to be leased of \$11.9 million and cash used in acquisitions, net of cash acquired of \$8.1 million, partially offset by proceeds from sale of property, equipment, and operating lease equipment of \$8.6 million and maturities of

supplemental benefit plan investments of \$2.5 million. The net issuance of financing receivables included within cash flows from investing activities consists of assets financed by our financing segment that were purchased from third party vendors.

Cash used in investing activities was \$28.8 million during the year ended March 31, 2014, primarily due to net issuances of notes receivable of \$20.0 million, purchases of property, equipment, and operating lease equipment, and assets to be leased of \$15.4 million and cash used in acquisitions, net of cash acquired of \$2.8 million, partially offset by proceeds from sale of property, equipment, and operating lease equipment of \$4.1 million.

Cash flows from financing activities. Cash provided by financing activities was \$55.2 million for the year ended March 31, 2016, driven by net borrowings of non-recourse and recourse notes payable of \$44.6 million.

Cash provided by financing activities was \$12.8 million for the year ended March 31, 2015, driven by net borrowings of non-recourse and recourse notes payable of \$50.5 million. This cash provided by financing activities is partially offset by repurchases of common stock of \$37.7 million.

## Table of Contents

Cash provided by financing activities was \$64.5 million for the year ended March 31, 2014, driven by net borrowings of non-recourse and recourse notes payable of \$49.3 million and net borrowings on the floor plan facility of \$27.2 million. This cash provided by financing activities is partially offset by repurchases of common stock of \$13.2 million.

## Non-Cash Activities

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

## Liquidity and Capital Resources

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

The financing necessary to support our lease and financing activities has been provided by our cash and non-recourse borrowings. We monitor our exposure closely. Historically, we have obtained mostly non-recourse borrowings from third party banks and finance companies. We continue to be able to obtain financing through our traditional lending sources. Non-recourse financings are loans whose repayment is the responsibility of a specific customer, although we may make representations and warranties to the lender regarding the specific contract or have ongoing loan servicing obligations. Under a non-recourse loan, we borrow from a lender an amount based on the present value of the contractually committed lease payments under the lease at a fixed rate of interest, and the lender secures a lien on the financed assets. When the lender is fully repaid from the lease payments, the lien is released and all further rental or sale proceeds are ours. We are not liable for the repayment of non-recourse loans unless we breach our representations and warranties in the loan agreements. The lender assumes the credit risk of each lease, and the lender's only recourse, upon default by the lessee, is against the lessee and the specific equipment under lease.

At March 31, 2016, our non-recourse notes payable portfolio decreased 16.6% to \$44.1 million, as compared to \$52.9 million at March 31, 2015. Our recourse notes payable decreased 9.4% to \$3.3 million as of March 31, 2016, compared to \$3.7 million as of March 31, 2015.

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

its investment.

Credit Facility — Technology

Our subsidiary, ePlus Technology, inc., has a financing facility from WFCDF to finance its working capital requirements for inventories and accounts receivable. There are two components of this facility: (1) a floor plan component; and (2) an accounts receivable component. This facility has full recourse to ePlus Technology, inc. and is secured by a blanket lien against all its assets, such as chattel paper, receivables and inventory. As of March 31, 2016, the facility had an aggregate limit of the two components of \$250.0 million with an accounts receivable sub-limit of \$30.0 million.

42

---

Table of Contents

Availability under the facility may be limited by the asset value of equipment we purchase or accounts receivable, and may be further limited by certain covenants and terms and conditions of the facility. These covenants include but are not limited to a minimum excess availability of the facility and minimum earnings before interest, taxes, depreciation and amortization of ePlus Technology, inc. We were in compliance with these covenants as of March 31, 2016.

Interest on the facility is assessed at a rate of the One Month LIBOR plus two and one half percent if the payments are not made on the three specified dates each month. The facility also requires that financial statements of ePlus Technology, inc. be provided within 45 days of each quarter and 90 days of each fiscal year end and also requires other operational reports be provided on a regular basis. Either party may terminate the facility with 90 days advance written notice.

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

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

Floor Plan Component

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

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

Maximum Credit Limit at March 31, 2016	Balance as of March 31, 2016	Maximum Credit Limit at March 31, 2015	Balance as of March 31, 2015
\$ 250,000	\$ 121,893	\$ 225,000	\$ 99,418

Accounts Receivable Component

Included within the credit facility, ePlus Technology, inc. has an accounts receivable component from WFCDF, which has a revolving line of credit. On the due date of the invoices financed by the floor plan component, the invoices are paid by the accounts receivable component of the credit facility. The balance of the accounts receivable component is then reduced by payments from our available cash. The outstanding balance under the accounts receivable component is recorded as recourse notes payable on our consolidated balance sheets. There was no balance outstanding for the accounts receivable component at March 31, 2016 or March 31, 2015, while the maximum credit limit was \$30.0 million for both periods.

Performance Guarantees

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

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K or other contractually narrow or limited purposes. As of March 31, 2016 and 2015, we were not involved in any unconsolidated special purpose entity transactions.

Table of Contents

## Adequacy of Capital Resources

The continued implementation of our business strategy will require a significant investment in both resources and managerial focus. In addition, we may selectively acquire other companies that have attractive customer relationships and skilled sales forces. We may also start offices in new geographic areas, which may require a significant investment of cash. We may also acquire technology companies to expand and enhance the platform of bundled solutions to provide additional functionality and value-added services. As a result, we may require additional financing to fund our strategy, implementation and potential future acquisitions, which may include additional debt and equity financing.

## Inflation

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

## Potential Fluctuations in Quarterly Operating Results

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

Our quarterly results of operations are susceptible to fluctuations for a number of reasons, including, but not limited to currency fluctuations, reduction in IT spending, any reduction of expected residual values related to the equipment under our leases, the timing and mix of specific transactions, the reduction of manufacturer incentive programs, and other factors. Quarterly operating results could also fluctuate as a result of our sale of equipment in our lease portfolio at the expiration of a lease term or prior to such expiration, to a lessee or to a third party and the transfer of financial assets. Sales of equipment and transfers of financial assets may have the effect of increasing revenues and net income during the quarter in which the sale occurs, and reducing revenues and net income otherwise expected in subsequent quarters. See Part I, Item 1A, "Risk Factors," in our 2015 Annual Report.

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

## Contractual Obligations

The impact that our contractual obligations as of March 31, 2016 are expected to have on our liquidity and cash flow in future periods is as follows (in thousands):

	Payments Due by Period				More than 5 years
	Total	1 year	Years 2 & 3	Years 4 & 5	
Recourse & non-recourse notes payable (1)	\$47,422	\$28,330	\$17,555	\$1,537	\$ -
Interest payments on recourse and non-recourse notes payable	1,724	1,148	525	51	-
Operating lease obligations	10,808	4,207	5,268	1,333	-

Edgar Filing: EPLUS INC - Form 10-K

Total \$59,954 \$33,685 \$23,348 \$2,921 \$ -

(1) Payments reflected principal amounts related to the recourse and non-recourse notes payable.

44

---

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Although a substantial portion of our liabilities are non-recourse, fixed-interest-rate instruments, we utilize our lines of credit and other financing facilities which are subject to fluctuations in short-term interest rates. These instruments, which are denominated in U.S. dollars, were entered into for other than trading purposes and, with the exception of amounts drawn under the WFCDF facility, bear interest at a fixed rate. Because the interest rate on these instruments is fixed, changes in interest rates will not directly impact our cash flows. Borrowings under the WFCDF facility bear interest at a market-based variable rate. As of March 31, 2016, the aggregate fair value of our recourse and non-recourse borrowings approximated their carrying value.

In December 2015, we purchased 100% of the stock of IGXGlobal UK, Ltd, a company formed and operated in the United Kingdom with a functional currency of British Pounds. In addition, the company also transacts in Euros and U. S. Dollars. There is a potential for exposure to fluctuations in foreign currency rates resulting primarily from the translation exposure associated with the preparation of our consolidated financial statements. In addition, we have foreign currency exposure when transactions are not denominated in the subsidiary's functional currency. To date, our United Kingdom operations are insignificant in relation to total consolidated operations and we believe that potential fluctuations in currency exchange rates will not have a material effect on our financial position.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the consolidated financial statements and schedules listed in the accompanying "Index to Financial Statements and Schedules."

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures, or "disclosure controls," as defined in Exchange Act Rule 13a-15(e). Disclosure controls are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this Form 10-K annual report, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms. Disclosure controls include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls include some, but not all, components of our internal control over financial reporting.

Based on the evaluation described above, the Chief Executive Officer and Chief Financial Officer concluded that disclosure controls and procedures as of March 31, 2016 were effective in ensuring information required to be disclosed in our SEC reports was recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

## Table of Contents

### Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13a-15(f). This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the consolidated financial statements.

Our management performed an assessment of the effectiveness of our internal control over financial reporting as of March 31, 2016, utilizing the criteria described in the "Internal Control — Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The objective of this assessment was to determine whether our internal control over financial reporting was effective as of March 31, 2016.

Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. Based on this assessment, management determined that, as of March 31, 2016, the Company maintained effective internal control over financial reporting.

Deloitte & Touche LLP, an independent registered public accounting firm, who audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has also audited the effectiveness of the Company's internal control over financial reporting as stated in its report appearing on page F-3.

### Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that occurred during the quarter ended March 31, 2016, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### Limitations on the Effectiveness of Controls

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

## ITEM 9B. OTHER INFORMATION

None.

46

---

Table of Contents

PART III

Except as set forth below, the information required by Items 10, 11, 12, 13 and 14 is incorporated by reference from our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the close of our fiscal year.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information about our directors may be found under the caption “Proposals – Proposal 1 – Election of Directors” in our Proxy Statement for the 2016 Annual Meeting of Stockholders (the “Proxy Statement”). The information in the Proxy Statement set forth under the captions of “Section 16 (a) Beneficial Ownership Reporting Compliance, Related Person Transactions and Indemnification”, “Committees of the Board of Directors” and “Corporate Governance” is incorporated herein by reference.

The information under the heading “Executive Officers” in Item 1 of this report is incorporated in this section by reference.

Code of Ethics

We have a code of ethics that applies to all of our employees, including our principal executive officer, principal financial officer, principal accounting officer and our Board. The Code of Conduct is available on our website at [www.ePlus.com/ethics](http://www.ePlus.com/ethics). We will disclose on our website any amendments to or waivers from any provision of the Code of Conduct that applies to any of the directors or executive officers.

ITEM 11. EXECUTIVE  
COMPENSATION

The information in the Proxy Statement set forth under the captions “Directors’ Compensation” and “Executive Compensation” is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND  
RELATED STOCKHOLDER MATTERS

The information in the Proxy Statement set forth under the captions “Executive Compensation – Equity Compensation Plan Information,” “Security Ownership of Certain Beneficial Owners” and “Security Ownership by Management” is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information in the Proxy Statement set forth under the caption “Section 16(a) Beneficial Ownership Reporting Compliance, Related Person Transactions and Indemnification” and “Corporate Governance” is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information in the Proxy Statement set forth under the caption “Proposals – Proposal 3 – Ratification of the appointment of Deloitte and Touche LLP as our independent auditors for our fiscal year ending March 31, 2017” is incorporated herein by reference.



Table of Contents

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The consolidated financial statements listed in the accompanying Index to Financial Statements and Schedules are filed as a part of this report and incorporated herein by reference.

(a)(2) Financial Statement Schedule

See "Financial Statement Schedule II - Valuation and Qualifying Accounts" on page S-1.

(a)(3) Exhibit List

Exhibits 10.2 through 10.16 are management contracts or compensatory plans or arrangements.

Exhibit No.	Exhibit Description
3.1	ePlus inc. Amended and Restated Certificate of Incorporation, filed on September 19, 2008 (Incorporated herein by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q for the period ended September 30, 2008).
3.2	Amended and Restated Bylaws of ePlus inc. as amended February 17, 2016 (Incorporated herein by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on February 19, 2016).
4	Specimen Certificate of Common Stock (Incorporated herein by reference to Exhibit 4.1 to our Registration Statement on Form S-1 (File No. 333-11737) originally filed on September 11, 1996).
10.1	Form of Indemnification Agreement entered into by and between ePlus and its directors and officers (Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on February 19, 2016).
10.2	Employment Agreement dated September 27, 2011, by and between ePlus inc. and Phillip G. Norton (Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on September 28, 2011).
10.3	Amendment No. 1 to Employment Agreement effective August 1, 2012 by and between ePlus inc. and Phillip G. Norton (Incorporated herein by reference to Exhibit 10.5 to our Current Report on Form 8-K filed on August 3, 2012).
10.4	Amendment No. 2 to Employment Agreement effective July 1, 2013, by and between ePlus inc. and Phillip G. Norton (Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 20, 2013).
10.5	Amendment No. 3 to Employment Agreement dated February 14, 2014, by and between ePlus inc. and Phillip G. Norton (Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on February 18, 2014).

Edgar Filing: EPLUS INC - Form 10-K

10.6 Amendment No. 4 to Employment Agreement dated June 9, 2015, by and between ePlus inc. and Phillip G. Norton (Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 15, 2015).

10.7 Amended and Restated Employment Agreement effective August 1, 2013, by and between ePlus inc. and Mark P. Marron (Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on August 2, 2013).

10.8 Amendment No. 1 to Amended and Restated Employment Agreement effective June 9, 2015, by and between ePlus inc. and Mark P. Marron (Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on June 15, 2015).

48

---

Table of Contents

- 10.9 Amended and Restated Employment Agreement effective August 1, 2013, by and between ePlus inc. and Steven J. Mencarini (Incorporated herein by reference to Exhibit 10.4 to our Current Report on Form 8-K filed on August 2, 2013).
- 10.10 Amended and Restated Employment Agreement effective August 1, 2013, by and between ePlus inc. and Elaine D. Marion (Incorporated herein by reference to Exhibit 10.8 to our Annual Report on Form 10-K for the fiscal year ended March 31, 2015).
- 10.11 Amendment No. 1 to Amended and Restated Employment Agreement effective June 9, 2015, by and between ePlus inc. and Elaine D. Marion (Incorporated herein by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on June 15, 2015).
- 10.12 2008 Non-Employee Director Long-Term Incentive Plan as amended (Incorporated herein by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q, for the period ended December 31, 2012).
- 10.13 ePlus inc. Executive Incentive Plan effective April 1, 2011 (Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on March 3, 2011).
- 10.14 ePlus inc. 2012 Employee Long-term Incentive Plan (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the period ended September 30, 2012).
- 10.15 Form of Award Agreement – Restricted Stock Agreement (for awards granted under and subject to the provisions of the ePlus inc. 2012 Employee Long-Term Incentive Plan) (Incorporated herein by reference to Exhibit 10.24 to our Annual Report on Form 10-K for the fiscal year ended March 31, 2014).
- 10.16 Form of Award Agreement – Restricted Stock Unit Award Agreement (for awards granted under and subject to the provisions of the ePlus inc. 2012 Employee Long-Term Incentive Plan) (Incorporated herein by reference to Exhibit 10.25 to our Annual Report on Form 10-K for the fiscal year ended March 31, 2014).
- 10.17 Limited Guaranty dated June 24, 2004 by and between GE Commercial Distribution Finance Corporation and ePlus inc. (Incorporated herein by reference to Exhibit 10.10 to our Current Report on Form 8-K filed on November 17, 2005).
- 10.18 Collateralized Guaranty, dated March 30, 2004, by and between GE Commercial Distribution Finance Corporation and ePlus Group, inc. (Incorporated herein by reference to Exhibit 10.11 to our Current Report on Form 8-K filed on November 17, 2005).
- 10.19 Amendment to Collateralized Guaranty, dated November 14, 2005, by and between GE Commercial Distribution Finance Corporation and ePlus Group, inc. (Incorporated herein by reference to Exhibit 10.12 to our Current Report on Form 8-K filed on November 17, 2005).
- 10.20 Amended and Restated Business Financing Agreement, dated July 23, 2012, by and between General Electric Commercial Distribution Finance and ePlus Technology, inc. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on July 26, 2012).
- 10.21 Amendment No. 1, dated July 31, 2014, to Amended and Restated Business Financing Agreement by and between General Electric Commercial Distribution Finance and ePlus Technology, inc. (Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the period ended

September 30, 2014).

10.22 Amendment No. 2, dated July 24, 2015, to Amended and Restated Business Financing Agreement by and between General Electric Commercial Distribution Finance and ePlus Technology, inc. (Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on July 30, 2015).

10.23 Amendment No. 3, dated October 20, 2015, to Amended and Restated Business Financing Agreement by and among ePlus Technology, inc. and its subsidiary ePlus Technology Services, inc. and GE Commercial Distribution Finance Corporation (Incorporated herein by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the period ended September 30, 2015).

10.24 Amended and Restated Agreement for Wholesale Financing, dated July 23, 2012, by and between General Electric Commercial Distribution Finance and ePlus Technology, inc. (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on July 26, 2012).

49

---

Table of Contents

Amendment No. 1, dated July 31, 2014, to Amended and Restated Agreement for Wholesale Financing by and  
10.25 between General Electric Commercial Distribution Finance and ePlus Technology, inc. (Incorporated by  
reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the period ended September 30, 2014).

Amendment No. 2, dated July 24, 2015, to Amended and Restated Agreement for Wholesale Financing by and  
10.26 between General Electric Commercial Distribution Finance and ePlus Technology, inc. (Incorporated herein by  
reference to Exhibit 10.1 to our Current Report on Form 8-K filed on July 30, 2015).

Amendment No. 3, dated October 20, 2015, to Amended and Restated Agreement for Wholesale Financing by  
10.27 and among ePlus Technology, inc. and its subsidiary ePlus Technology Services, inc. and GE Commercial  
Distribution Finance Corporation (Incorporated herein by reference to Exhibit 10.1 to our Quarterly Report on  
Form 10-Q for the period ended September 30, 2015).

Deed of Lease by and between ePlus inc. and Norton Building I, LLC dated as of December 23, 2004  
10.28 (Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on December 27,  
2004).

Amendment #1 to Deed of Lease by and between ePlus inc. and Norton Building I, LLC, dated as of July 1,  
10.29 2007 (Incorporated herein by reference to Exhibit 10.45 to our Annual Report on Form 10-K for the fiscal year  
ended March 31, 2014).

Amendment #2 to Deed of Lease by and between ePlus inc. and Norton Building I, LLC, dated as of June 18,  
10.30 2009 (Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 23,  
2009).

Amendment #3 to Deed of Lease by and between ePlus inc. and Norton Building I, LLC, dated as of June 22,  
10.31 2010 (Incorporated herein by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the period  
ended June 30, 2010).

Amendment #4 to Deed of Lease by and between ePlus inc. and H/F Techpointe, LLC, dated as of March 4,  
10.32 2014 (Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed March 6, 2014).

12 Ratio of Earnings to Fixed Charges

21 Subsidiaries of ePlus inc.

23 Consent of Independent Registered Public Accounting Firm.

31.1 Certification of the Chief Executive Officer of ePlus inc. pursuant to the Securities Exchange Act Rules  
13a-14(a) and 15d-14(a).

31.2 Certification of the Chief Financial Officer of ePlus inc. pursuant to the Securities Exchange Act Rules  
13a-14(a) and 15d-14(a).

32 Certification of the Chief Executive Officer and Chief Financial Officer of ePlus inc. pursuant to 18 U.S.C. §  
1350.

50

Table of Contents

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

(b) See item 15(a)(3) above.

(c) See Item 15(a)(1) and 15(a)(2) above.

51

---

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ePlus inc.

/s/ PHILLIP G. NORTON

By: Phillip G. Norton, Chairman of the Board,  
President and Chief Executive Officer

Date: May 25, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ PHILLIP G. NORTON

By: Phillip G. Norton, Chairman of the Board,  
President, Chief Executive Officer  
(Principal Executive Officer)

Date: May 25, 2016

/s/ ELAINE D. MARION

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

Date: May 25, 2016

/s/ BRUCE M. BOWEN

By: Bruce M. Bowen, Director

Date: May 25, 2016

/s/ JOHN E. CALLIES

By: John E. Callies, Director

Date: May 25, 2016

/s/ C. THOMAS FAULDERS, III

By: C. Thomas Faulders, III, Director

Date: May 25, 2016

/s/ LAWRENCE S. HERMAN

By: Lawrence S. Herman, Director

Date: May 25, 2016

/s/ ERIC D. HOVDE

By: Eric D. Hovde, Director

Date: May 25, 2016

/s/ IRA A. HUNT

By: Ira A. Hunt, Director

Date: May 25, 2016

/s/ TERRENCE O'DONNELL

By: Terrence O'Donnell, Director

Date: May 25, 2016

Table of Contents

ePlus inc. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

	PAGE
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of March 31, 2016 and 2015</u>	F-4
<u>Consolidated Statements of Operations for the Years ended March 31, 2016, 2015 and 2014</u>	F-5
<u>Consolidated Statements of Comprehensive Income for the Years ended March 31, 2016, 2015 and 2014</u>	F-6
<u>Consolidated Statements of Cash Flows for the Years ended March 31, 2016, 2015 and 2014</u>	F-7
<u>Consolidated Statements of Stockholders' Equity for the Years ended March 31, 2016, 2015 and 2014</u>	F-9
<u>Notes to Consolidated Financial Statements</u>	F-10

F - 1

---

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
ePlus inc.  
Herndon, Virginia

We have audited the accompanying consolidated balance sheets of ePlus inc. and subsidiaries (the "Company") as of March 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2016. Our audits also included the financial statement schedule listed in the Table of Contents at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ePlus inc. and subsidiaries as of March 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of March 31, 2016, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 25, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP

McLean, Virginia

May 25, 2016

F - 2

---

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
ePlus inc.  
Herndon, Virginia

We have audited the internal control over financial reporting of ePlus inc. and subsidiaries (the “Company”) as of March 31, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2016, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the fiscal year ended March 31, 2016 of the Company and our report dated May 25, 2016 expressed an unqualified opinion on those financial statements and financial statement schedule.

DELOITTE & TOUCHE LLP

McLean, Virginia

May 25, 2016

F - 3

---

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

ePlus inc. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	As of March 31, 2016	As of March 31, 2015
	(in thousands, except per share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 94,766	\$ 76,175
Accounts receivable—trade, net	234,628	218,458
Accounts receivable—other, net	41,771	31,345
Inventories—net	33,343	19,835
Financing receivables—net, current	56,448	66,909
Deferred costs	6,371	20,499
Other current assets	10,649	7,413
Total current assets	477,976	440,634
Financing receivables and operating leases—net	75,906	76,991
Deferred tax assets—net	-	604
Property, equipment and other assets	8,644	9,248
Goodwill and other intangible assets—net	54,154	40,798
<b>TOTAL ASSETS</b>	<b>\$ 616,680</b>	<b>\$ 568,275</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 76,780	\$ 66,420
Accounts payable—floor plan	121,893	99,418
Salaries and commissions payable	14,981	14,860
Deferred revenue	18,344	34,363
Recourse notes payable—current	2,288	889
Non-recourse notes payable—current	26,042	28,560
Other current liabilities	13,118	13,575
Total current liabilities	273,446	258,085
Recourse notes payable—long term	1,054	2,801
Non-recourse notes payable—long term	18,038	24,314
Deferred tax liability—net	3,001	-
Other liabilities	2,263	3,813
<b>TOTAL LIABILITIES</b>	<b>297,802</b>	<b>289,013</b>

## COMMITMENTS AND CONTINGENCIES (Note 8)

## STOCKHOLDERS' EQUITY

Edgar Filing: EPLUS INC - Form 10-K

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 7,365 outstanding at March 31, 2016 and 13,114 issued and 7,389 outstanding at March 31, 2015	132	131
Additional paid-in capital	117,511	111,072
Treasury stock, at cost, 5,872 and 5,725 shares at March 31, 2016 and March 31, 2015, respectively	(129,518 )	(118,179 )
Retained earnings	331,224	286,477
Accumulated other comprehensive income—foreign currency translation adjustment	(471 )	(239 )
Total Stockholders' Equity	318,878	279,262
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 616,680</b>	<b>\$ 568,275</b>

See Notes to Consolidated Financial Statements.

F - 4

---

Table of Contents

ePlus inc. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended March 31,		
	2016	2015	2014
	(amounts in thousands, except per share data)		
Net sales	\$ 1,204,199	\$ 1,143,282	\$ 1,057,536
Cost of sales	942,142	898,735	840,623
Gross profit	262,057	244,547	216,913
Professional and other fees	6,546	6,508	9,041
Salaries and benefits	149,304	138,086	123,151
General and administrative expenses	23,130	22,531	19,883
Depreciation and amortization	5,548	4,333	2,792
Interest and financing costs	1,778	2,379	1,948
Operating expenses	186,306	173,837	156,815
Operating income	75,751	70,710	60,098
Other income	-	7,603	-
Earnings before tax	75,751	78,313	60,098
Provision for income taxes	31,004	32,473	24,825
Net earnings	\$ 44,747	\$ 45,840	\$ 35,273
Net earnings per common share—basic	\$ 6.17	\$ 6.26	\$ 4.41
Net earnings per common share—diluted	\$ 6.09	\$ 6.19	\$ 4.37
Weighted average common shares outstanding—basic	7,256	7,318	7,927
Weighted average common shares outstanding—diluted	7,344	7,393	7,999

See Notes to Consolidated Financial Statements.

Table of Contents

ePlus inc. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended March 31,		
	2016	2015	2014
NET EARNINGS	\$44,747	\$45,840	\$35,273
OTHER COMPREHENSIVE INCOME, NET OF TAX:			
Foreign currency translation adjustments (net of tax effect of \$40, \$10, \$21, respectively)	(232 )	(425 )	(224 )
Other comprehensive income (loss)	(232 )	(425 )	(224 )
TOTAL COMPREHENSIVE INCOME	\$44,515	\$45,415	\$35,049

See Notes to Consolidated Financial Statements.

F - 6

Table of ContentsePlus inc. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31,		
	2016	2015	2014
	(in thousands)		
Cash Flows From Operating Activities:			
Net earnings	\$44,747	\$45,840	\$35,273
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:			
Depreciation and amortization	15,980	15,575	14,755
Reserve for credit losses, inventory obsolescence and sales returns	(216 )	125	853
Share-based compensation expense	5,711	4,585	3,968
Excess tax benefit from share-based compensation	(728 )	(564 )	(1,762 )
Deferred taxes	3,515	(1,863 )	(3,536 )
Payments from lessees directly to lenders—operating leases	(4,646 )	(7,685 )	(7,539 )
Gain on disposal of property, equipment and operating lease equipment	(3,104 )	(3,112 )	(2,473 )
Gain on sale of financing receivables	(7,103 )	(5,884 )	(5,843 )
Excess increase in cash value of life insurance	-	-	(103 )
Gain on settlement	-	(1,434 )	-
Other	185	(127 )	109
Changes in:			
Accounts receivable—trade	(8,564 )	1,372	(36,751 )
Accounts receivable—other	(2,498 )	(2,407 )	(2,621 )
Inventories	(13,405 )	3,161	(7,724 )
Financing receivables—net	(9,310 )	(19,560 )	(30,792 )
Deferred costs, other intangible assets and other assets	11,189	(10,060 )	(1,179 )
Accounts payable—trade	(738 )	(16,810 )	33,090
Salaries and commissions payable, deferred revenue and other liabilities	(17,633 )	12,695	4,052
Net cash provided by (used in) operating activities	\$13,382	\$13,847	\$(8,223 )
Cash Flows From Investing Activities:			
Maturities of short-term investments	\$-	\$-	\$982
Maturities of supplemental benefit plan investments	-	2,544	-
Proceeds from sale of property, equipment and operating lease equipment	6,931	8,562	4,138
Purchases of property, equipment and operating lease equipment	(14,468 )	(11,773 )	(9,952 )
Purchases of assets to be leased or financed	(11,403 )	(143 )	(5,445 )
Issuance of financing receivables	(137,008)	(128,125)	(104,298)
Repayments of financing receivables	58,067	60,619	42,514
Proceeds from sale of financing receivables	64,351	45,828	46,249
Premiums paid on life insurance	-	(47 )	(140 )
Cash used in acquisitions, net of cash acquired	(16,649 )	(8,057 )	(2,845 )
Net cash used in investing activities	\$(50,179 )	\$(30,592 )	\$(28,797 )

Table of Contents

## CONSOLIDATED STATEMENTS OF CASH FLOWS - continued

	Year Ended March 31,		
	2016	2015	2014
	(in thousands)		
Cash Flows From Financing Activities:			
Borrowings of non-recourse and recourse notes payable	\$44,807	\$52,237	\$51,547
Repayments of non-recourse and recourse notes payable	(257 )	(1,688 )	(2,252 )
Repurchase of common stock	(11,339 )	(37,685 )	(13,188 )
Dividends paid	(80 )	(90 )	(108 )
Proceeds from issuance of capital stock through option exercise	-	-	560
Payments of contingent consideration	(1,158 )	-	(1,027 )
Excess tax benefit from share-based compensation	728	564	1,762
Net borrowings (repayments) on floor plan facility	22,475	(518 )	27,165
Net cash provided by financing activities	55,176	12,820	64,459
Effect of exchange rate changes on cash	212	(79 )	20
Net Increase (Decrease) in Cash and Cash Equivalents	18,591	(4,004 )	27,459
Cash and Cash Equivalents, Beginning of Period	76,175	80,179	52,720
Cash and Cash Equivalents, End of Period	\$94,766	\$76,175	\$80,179
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	\$84	\$239	\$105
Cash paid for income taxes	\$29,789	\$35,436	\$25,517
Schedule of Non-Cash Investing and Financing Activities:			
Proceeds from sales of operating lease equipment included in accounts receivable	\$7,650	\$443	\$861
Purchase of property, equipment, and operating leases included in accounts payable	\$(10,562 )	\$(432 )	\$(123 )
Purchase of assets to be leased or financed included in accounts payable	\$(9,827 )	\$(20,022 )	\$(1,140 )
Issuance of financing receivables	\$(101,718 )	\$(73,881 )	\$(98,616 )
Repayment of financing receivables	\$16,873	\$-	\$-
Proceeds from sale of financing receivables	\$98,753	\$73,881	\$98,616
Borrowing of recourse and nonrecourse notes payable	\$42,840	\$-	\$-
Repayments of non-recourse and recourse notes payable	\$(29,059 )	\$(34,584 )	\$(22,146 )
Vesting of share-based compensation	\$7,799	\$6,474	\$7,838
Contingent consideration	\$-	\$(1,980 )	\$-

See Notes to Consolidated Financial Statements.

Table of Contents

ePlus inc. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(amounts in thousands)

	Common Stock Par Shares	Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, April 1, 2013	8,150	\$ 129	\$ 99,641	\$(67,306 )	\$ 205,358	\$ 410	\$ 238,232
Issuance of shares for option exercises	40	-	559	-	-	-	559
Excess tax benefit of share- based compensation	-	-	1,762	-	-	-	1,762
Issuance of restricted stock awards	87	1	-	-	-	-	1
Share-based compensation	-	-	3,962	-	6	-	3,968
Repurchase of common stock	(241 )	-	-	(13,188 )	-	-	(13,188 )
Net earnings	-	-	-	-	35,273	-	35,273
Foreign currency translation adjustment	-	-	-	-	-	(224 )	(224 )
Balance, March 31, 2014	8,036	\$ 130	\$ 105,924	\$(80,494 )	\$ 240,637	\$ 186	\$ 266,383
Excess tax benefit of share- based compensation	-	-	564	-	-	-	564
Issuance of restricted stock awards	88	1	-	-	-	-	1
Share-based compensation	-	-	4,584	-	-	-	4,584
Repurchase of common stock	(735 )	-	-	(37,685 )	-	-	(37,685 )
Net earnings	-	-	-	-	45,840	-	45,840
Foreign currency translation adjustment	-	-	-	-	-	(425 )	(425 )
Balance, March 31, 2015	7,389	\$ 131	\$ 111,072	\$(118,179)	\$ 286,477	\$ (239 )	\$ 279,262
Excess tax benefit of share- based compensation	-	-	728	-	-	-	728
Issuance of restricted stock awards	123	1	-	-	-	-	1
Share-based compensation	-	-	5,711	-	-	-	5,711
Repurchase of common stock	(147 )	-	-	(11,339 )	-	-	(11,339 )
Net earnings	-	-	-	-	44,747	-	44,747
Foreign currency translation adjustment	-	-	-	-	-	(232 )	(232 )
Balance, March 31, 2016	7,365	\$ 132	\$ 117,511	\$(129,518)	\$ 331,224	\$ (471 )	\$ 318,878

See Notes to Consolidated Financial Statements

Table of Contents

ePlus inc. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years ended March 31, 2016, 2015 and 2014

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**BASIS OF PRESENTATION** — The consolidated financial statements include the accounts of ePlus inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The accounts of businesses acquired during fiscal year 2016, 2015 and 2014 are included in the consolidated financial statements from the dates of acquisition.

**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.

**REVENUE RECOGNITION** — The majority of our revenues are derived from the following sources: sales of third-party products, software, software assurance, maintenance and services; sales of our services and software and financing revenues. For all these revenue sources, we determine whether we are the principal or agent in accordance with Accounting Standards Codification ("Codification") Topic, Revenue Recognition, Subtopic Principal Agent Considerations. Our revenue recognition policies vary based upon these revenue sources.

For arrangements with multiple elements, we allocate the total consideration to the deliverables based on an estimated selling price of our products and services. We determine the estimated selling price using cost plus a reasonable margin for each deliverable, which was based on historical data.

**Sales of Product and Services**

Generally, sales of third-party product and software are recognized on a gross basis with the selling price to the customer recorded as sales and the acquisition cost of the product or software recorded as cost of sales. Revenue is recognized when the title and risk of loss are passed to the customer, there is persuasive evidence of an arrangement for sale, delivery has occurred, the sales price is fixed or determinable and collectability is reasonably assured. Delivery for products is typically performed via drop-shipment by the vendor or distributor to our customers' location, and for software via electronic delivery. The vast majority of our product and software sales are recognized upon delivery due to our sales terms with our customers and with our vendors.

We provide ePlus advanced professional services under both time and materials and fixed price contracts. Under time and materials contracts, we recognize revenue at agreed-upon billing rates at the time services are performed. Under

certain fixed price contracts, we recognize revenue based on the proportion of the services delivered to date as a percentage of the total services to deliver over the contract term. Under other fixed price contracts, we recognize revenue upon completion. Revenues from other ePlus services, such as maintenance, managed services and hosting services are recognized on a straight-line basis over the term of the arrangement.

We sell software assurance, subscription licenses, maintenance and service contracts where the services are performed by a third-party. Software assurance is a maintenance product that allows customers to upgrade at no additional cost to the latest technology if new applications are introduced during the period that the software assurance is in effect. As we enter into contracts with third-party service providers, we evaluate whether we are acting as a principal or agent in the transaction. As our customers are aware that the third-party service provider is to provide the services to them and that we are not responsible for the day-to-day provision of services in these arrangements, we concluded that we are acting as an agent and recognize revenue on a net basis at the date of sale. Under net revenue recognition, the cost paid to the vendor or third-party service provider is recorded as a reduction to sales, resulting in revenue being equal to the gross profit on the transaction.

We present freight billed to our customers within sales and the related freight charged to us within cost of sales. Sales tax amounts collected from customers for remittance to governmental authorities are presented on a net basis.

## Table of Contents

### Financing Revenue

We lease products to customers that are accounted for in accordance with Codification Topic, Leases. We may also finance third-party software and services for our customers, which are classified as notes receivable. The terms of the notes receivable are often similar to the terms of the leases of IT equipment; that is, receivables are interest bearing and are often due over a period of time that corresponds with the terms of the leased IT equipment.

The accounting for investments in leases and leased equipment 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.

Revenue on direct financing and sales-type leases is deferred at the inception of the leases and is recognized over the term of the lease using the interest method. Revenue from operating leases is recognized ratably on a straight line basis over the term of the lease agreement.

Codification Topic Transfers and Servicing, Subtopic Sales of Financial Assets, 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 notes receivable and direct finance and sales-type leases we make on a non-recourse basis meet the criteria for surrender of control set forth by this subtopic and have therefore been treated as sales in our financial results. We recognize a net gain or loss on these transactions, which is included within revenue in our consolidated statements of operations.

Revenues on the sales of equipment at the end of a lease are recognized at the date of sale. The net gain or loss on sales of such equipment is presented within net sales in our consolidated statements of operations.

### Software License Sales

We recognize revenue for the licensing and hosting of our software in accordance with Codification Topic Software, Subtopic Revenue Recognition. 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 remain, which relate to services essential to the functionality of the software with regard to implementation;
- the sales price is determinable; and
- it is probable that collection will occur.

The majority of our agreements are fixed term license agreements and the revenue is recognized over the contract term. Revenue from the sale of a perpetual license is recognized upon installation of the software. We recognize revenue from hosting our proprietary software for our customers over the contract term. Our hosting arrangements do not contain a contractual right to take possession of the software.

### 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) agent fees received from various vendors in the technology segment; and (4) interest and other miscellaneous income.

F - 11

---

Table of Contents

Reserves for Sales Returns

Sales are reported net of allowances for returns which are maintained at a level believed by management to be adequate to absorb potential returns of sales of product and services in accordance with Codification Topic Revenue, Subtopic Product. 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 at the date of acquisition, to be cash equivalents. Cash and cash equivalents consist primarily of interest-bearing accounts and money market funds that consist of short-term U.S. treasury securities. There were no restrictions on the withdrawal of funds from our money market accounts as of March 31, 2016 and March 31, 2015.

**FINANCING RECEIVABLES AND OPERATING LEASES** — Financing receivables and operating leases consists of notes receivable, direct financing, sales-type leases and operating leases. The terms of lease and financing arrangements are typically between 3 to 7 years, with an average term of 42 to 48 months.

Notes receivables consist of software and services that we finance for our customers. Interest income is recognized using the effective interest method and reported within net sales in our consolidated statement of operations.

At the inception of our 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. We recognize contingent rental income, if any, when the changes in the factors on which the contingent lease payments are based actually occur.

At the inception of an operating lease, equipment under operating leases is recorded at cost and depreciated on a straight-line basis over its useful life to the estimated residual value. The estimated useful lives for equipment under operating leases ranges based on the nature of the equipment. The estimated useful life for information technology equipment is 36 to 84 months, while that of medical equipment is between 48 and 60 months.

**RESIDUAL VALUES** — Residual values, representing the unguaranteed estimated value of equipment at the termination of a lease, are recorded at the inception of each lease. The estimated residual values vary, both in amount and as a percentage of the original equipment cost, and depend upon several factors, including the equipment type, vendor's discount, market conditions, term of the lease, equipment supply and demand and by new product announcements by vendors.

Unguaranteed residual values for direct financing and sales-type 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.

Residual values are evaluated on a quarterly basis and any impairment, other than temporary, is recorded in the period in which the impairment is determined. No upward revision of residual values is made subsequent to lease inception.

**RESERVES FOR CREDIT LOSSES** — Our receivables consist of trade and other accounts receivable and financing receivables. We maintain our reserves for credit losses at a level believed to be adequate to absorb potential losses

inherent in the respective balances. The reserve for credit losses is increased by provisions for potential credit losses, which increases expenses, and decreased by subsequent recoveries. The reserve for credit losses is decreased by write-offs and reductions to the provision for potential credit losses. Accounts are either written off or written down when the loss is both probable and determinable.

F - 12

---

## Table of Contents

Management's determination of the adequacy of the reserves for credit losses for accounts receivable is based on the age of the receivable balance, the customer's credit quality rating, an evaluation of historical credit losses, current economic conditions, and other relevant factors. Management's determination of the adequacy of the reserve for credit losses for financing receivables may be based on the following factors: an internally assigned credit quality rating, historical credit loss experience, current economic conditions, volume, growth, the composition of the lease portfolio, the fair value of the underlying collateral, and the funding status (i.e. not funded, funded on a recourse or partial recourse basis, or funded on non-recourse basis). We assign an internal credit quality rating to each customer at the inception of the lease based on the customer's financial status, rating agency reports and other financial information. We update the internal credit quality rating at least annually or when an indicator of a change in credit quality arises, such as a delinquency or bankruptcy. Also, management regularly reviews financing receivables to assess whether any balances should be impaired or placed on nonaccrual status.

**CONCENTRATIONS OF RISK**—Financial instruments that potentially subject us to concentrations of credit risk include cash and cash equivalents, short-term investments, accounts receivable, notes receivable and investments in direct financing and sales-type leases. Cash and cash equivalents and short-term investments are maintained principally with financial institutions in the United States, which have high credit ratings. Risk on accounts receivable, notes receivable and investments in direct financing and sales-type leases is reduced by the large number of diverse industries comprising our customer base and through the ongoing evaluation of collectability of our portfolio. Our credit risk is further mitigated through the underlying collateral and whether the lease is funded with recourse or non-recourse notes payable.

A substantial portion of our sales are from Cisco Systems, Hewlett-Packard companies, and NetApp products, which represented approximately 49%, 7% and 5%, respectively, of our technology segment net sales for the year ended March 31, 2016, as compared to 49%, 8%, and 7%, respectively, of our technology segment net sales for the year ended March 31, 2015, and 48%, 10%, and 8%, respectively, for the year ended March 31, 2014.

**INVENTORIES** — Inventories are stated at the lower of cost and net realizable value. Cost is determined using a weighted average cost method. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Inventories are shown net of allowance for obsolescence of \$147 thousand and \$161 thousand as of March 31, 2016 and 2015, respectively.

**DEFERRED COSTS AND DEFERRED REVENUES** — Deferred costs include internal and third party costs associated with deferred revenue arrangements. Deferred revenue relates to professional, managed and hosting services.

**GOODWILL** — Goodwill represents the premium paid over the fair value of net tangible and intangible assets we have acquired in business combinations. Goodwill is assigned to a reporting unit on the acquisition date.

Goodwill is tested for impairment at a level of reporting referred to as a reporting unit. We review our goodwill for impairment annually in the third quarter of our fiscal year, or more frequently if indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in our share price and market capitalization, a decline in our expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition, and/or slower growth rates, among others.

We first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Qualitative factors we consider include, but are not limited to, macroeconomic conditions, industry and market conditions, company specific events, changes in circumstances, after tax cash flows and market capitalization. If the qualitative factors indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we perform the two step process to assess our goodwill for impairment. First, we compare the fair value of our reporting units with its carrying value. We estimate the fair value of the

reporting unit using various valuation methodologies, including discounted expected future cash flows. The assumptions included in the these valuation methodologies include forecasted revenues, gross profit margins, operating income margins, working capital cash flow, forecasted capital expenditures, perpetual growth rates, and long-term discount rates, among others, all of which require significant judgments by management.

F - 13

---

## Table of Contents

If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired, and no further testing is necessary. If the net book value of our reporting unit exceeds its fair value, we perform a second test to measure the amount of impairment loss, if any. To measure the amount of any impairment loss, we determine the fair value of goodwill in the same manner as if our reporting unit were being acquired in a business combination. Specifically, we allocate the fair value of the reporting unit to all of the assets and liabilities of that unit, including any unrecognized intangible assets, in a hypothetical calculation that would yield the estimated fair value of goodwill. If the estimated fair value of goodwill is less than the goodwill recorded on our balance sheet, we record an impairment charge for the difference.

**CAPITALIZATION OF COSTS OF SOFTWARE FOR INTERNAL USE** — We capitalize costs for the development of internal use software under the guidelines of Codification Topic Intangibles—Goodwill and Other Intangibles, Subtopic Internal-Use Software. Software capitalized for internal use was \$16 thousand and \$77 thousand during the years ended March 31, 2016 and March 31, 2015, respectively, and is included in the accompanying consolidated balance sheets as a component of goodwill and other intangible assets. We had capitalized costs, net of amortization, of approximately \$381 thousand and \$675 thousand at March 31, 2016 and March 31, 2015, respectively.

**CAPITALIZATION OF COSTS OF SOFTWARE TO BE MADE AVAILABLE TO CUSTOMERS** — In accordance with Codification Topic Software, Subtopic Costs of Software to Be Sold, Leased, or 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. No amounts were capitalized for the year ended March 31, 2016 and 2015. We had \$414 thousand and \$566 thousand of capitalized costs, net of amortization, at March 31, 2016 and March 31, 2015, respectively, which is included within goodwill and other intangible assets in the accompanying balance sheets.

**PROPERTY AND EQUIPMENT** — Property and equipment are stated at cost, net of accumulated depreciation and amortization. Property and equipment obtained through an acquisition are stated at the fair market value as of the acquisition date. 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. Information technology equipment is depreciated over three years. Perpetual software licenses are depreciated over five years. Furniture and certain fixtures are depreciated over five to ten years. Telecommunications equipment is depreciated over seven years.

**TREASURY STOCK** — We account for treasury stock under the cost method and include treasury stock as a component of stockholders' equity on the accompanying consolidated balance sheets.

**VENDOR CONSIDERATION** — We receive payments and credits from vendors pursuant to volume incentive programs and shared marketing expense programs. Many of these programs extend over one or more quarters' sales activities. Different programs have different vendor/program specific milestones to achieve. Amounts due from vendors as of March 31, 2016 and 2015 were \$15.6 million and \$13.9 million, respectively, which were included within accounts receivable-other, net in the accompanying balance sheets.

Vendor consideration received pursuant to volume purchase incentive programs is allocated to inventory based on the applicable incentives from each vendor and is recorded in cost of sales, product and services, as the inventory is sold. If a rebate is probable and reasonably estimable, it is recognized based on a systematic and rational allocation of the cash consideration offered to the underlying transactions that result in our progress toward earning the rebate. If a rebate is not probable and reasonably estimable, it is recognized as the milestones are achieved.

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.

**SHARE-BASED COMPENSATION** — We account for share-based compensation in accordance with Codification Topic Compensation—Stock Compensation. We recognize compensation cost for awards of restricted stock with graded vesting on a straight line basis over the requisite service period and we estimate forfeitures based on historical experience. There are no additional conditions for vesting other than service conditions.

**INCOME TAXES** — Deferred income taxes are accounted for in accordance with Codification Topic 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 carry-forwards, 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.

F - 14

---

### Table of Contents

In addition, we account for uncertain tax positions in accordance with Codification Topic Income Taxes. Specifically, the Topic 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 de-recognition, 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.

**BUSINESS COMBINATIONS** — We account for business combinations using the acquisition method in accordance with Codification Topic Business Combinations, which requires that the total purchase price of each of the acquired entities be allocated to the assets acquired and liabilities assumed based on their fair values at the acquisition date. The allocation process requires an analysis of intangible assets, such as customer relationships, trade names, acquired contractual rights and assumed contractual commitments and legal contingencies to identify and record all assets acquired and liabilities assumed at their fair value.

Any premium paid over the fair value of the net tangible and intangible assets of the acquired business is recorded as goodwill. We recognize a gain in our income statement to the extent the purchase price is less than the fair value of assets acquired and liabilities assumed. The results of operations for an acquired company are included in our financial statements from the date of acquisition.

**FAIR VALUE MEASUREMENT** — We follow the guidance in Codification Topic Fair Value Measurements which governs fair value accounting for financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. When determining the fair value measurements for assets and liabilities, which are required to be disclosed at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risk inherent in valuation techniques, transfer restrictions and credit risk. Topic Fair Value Measurements and Disclosures establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement as follows:

- Level 1 – Observable inputs such as quoted prices for identical assets and liabilities in active markets;
- Level 2 – Inputs other than quoted prices, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs reflecting the Company’s own assumptions, consistent with reasonably available assumptions made by other market participants.

This hierarchy requires us to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. As of March 31, 2016, we measure money market funds and contingent consideration at fair value on a recurring basis, which is based on quoted net asset values.

**FINANCIAL INSTRUMENTS** — For financial instruments such as cash, short-term investments, accounts receivables, accounts payable and other current liabilities, we consider the recorded value of the financial instruments to approximate the fair value due to their short maturities.

At March 31, 2016, the carrying amount of notes receivables, recourse and non-recourse payables were \$43.4 million, \$3.3 million and \$44.1 million, respectively and the fair value of notes receivables, recourse and non-recourse payables were \$42.4 million, \$3.3 million and \$43.9 million, respectively. At March 31, 2015, the carrying amount of notes receivables, recourse and non-recourse payables were \$56.8 million, \$3.7 million and \$52.9 million,

respectively and the fair value of notes receivables, recourse and non-recourse payables were \$59.4 million, \$3.6 million and \$52.3 million.

**FOREIGN CURRENCY TRANSLATION**— The Company’s functional currency is the U.S. dollar. The functional currency of the Company’s international operating subsidiaries is generally the same as the corresponding local currency. Assets and liabilities of the international operating subsidiaries are translated at the spot rate in effect at the applicable reporting date. Revenues and expenses of the international operating subsidiaries are translated at the average exchange rates in effect during the applicable period. The resulting foreign currency translation adjustment is recorded as accumulated other comprehensive loss, which is reflected as a separate component of Stockholders’ equity.

F - 15

---

Table of Contents

**EARNINGS PER SHARE** — Basic earnings per share is calculated by dividing net earnings attributable to common stockholders by the basic weighted average number of shares of common stock outstanding during each period. Diluted earnings per share reflects the potential dilution of securities that could participate in our earnings, including incremental shares issuable upon the assumed exercise of “in-the-money” stock options and other common stock equivalents during each period.

**2. RECENT ACCOUNTING PRONOUNCEMENTS**

**RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS** — In November 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-17, Balance Sheet Classification of Deferred Taxes. To simplify the presentation of deferred income taxes, the amendments in this ASU require that deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. As permitted, we elected to early adopt this ASU using the retrospective approach, during the quarter ended December 31, 2015. As a result of adopting this ASU, we recast our March 31, 2015 balance sheet by decreasing deferred tax assets-current, property, equipment and other assets, and deferred tax liability by \$3,643 thousand, \$232 thousand, and \$3,271 thousand, respectively, and creating a new line item for non-current deferred tax assets in the amount of \$604 thousand. There is no impact to our consolidated statement of operations or statement of cash flows.

In September 2015, the FASB issued ASU 2015-16, Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments. This main provision in this ASU is that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. As permitted, we elected to early adopt this ASU during the quarter ended March 31, 2016. The adoption of this update did not have a material impact on our consolidated financial statements.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED** — In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede all current U.S. GAAP on this topic. The FASB subsequently issued ASU 2016-08, Principal versus Agent Considerations, ASU 2016-10, Identifying Performance Obligations and Licensing, and ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, in March 2016, April 2016 and May 2016, respectively, to amend the guidance in ASU 2014-09. The core 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 issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, to defer the effective date of ASU 2014-09 by one year. Including the one-year deferral, these updates 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 ASU 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 of this update on our financial statements and have not yet selected our planned transition approach.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which will supersede the current U.S. GAAP on this topic. The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases. This ASU requires adoption under the modified retrospective approach and becomes effective for us in our quarter ending June 30, 2019. Early adoption is permitted. We are currently evaluating the impact of this update on our financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Stock Compensation. This ASU is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The provisions of this ASU are effective for becomes effective for us in our quarter ending June 30, 2017. Early application is permitted. We are currently evaluating the impact of this update on our financial statements.



Table of Contents

## 3. FINANCING RECEIVABLES AND OPERATING LEASES

## FINANCING RECEIVABLES—NET

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

	Notes Receivables	Lease-Related Receivables	Total Financing Receivables
March 31, 2016			
Minimum payments	\$ 44,442	\$ 66,303	\$ 110,745
Estimated unguaranteed residual value (1)	-	12,693	12,693
Initial direct costs, net of amortization (2)	312	475	787
Unearned income	-	(5,543 )	(5,543 )
Reserve for credit losses (3)	(3,381 )	(685 )	(4,066 )
Total, net	\$ 41,373	\$ 73,243	\$ 114,616
Reported as:			
Current	\$ 24,962	\$ 31,486	\$ 56,448
Long-term	16,411	41,757	58,168
Total, net	\$ 41,373	\$ 73,243	\$ 114,616

(1) Includes estimated unguaranteed residual values of \$6,722 thousand for direct financing leases, which have been accounted for as sales under Codification Topic Transfers and Servicing.

(2) Initial direct costs are shown net of amortization of \$612 thousand.

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

	Notes Receivables	Lease-Related Receivables	Total Financing Receivables
March 31, 2015			
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 accounted for as sales under Codification 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 5, "Reserves for Credit Losses."

Future scheduled minimum lease payments for investments in direct financing and sales-type leases as of March 31, 2016 are as follows (in thousands):

Year ending March 31, 2017	\$34,566
2018	19,247
2019	10,673
2020	1,582
2021 and thereafter	235

Total	\$66,303
-------	----------

F - 17

---

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):

	March 31, 2016	March 31, 2015
Cost of equipment under operating leases	\$ 36,635	\$ 36,283
Accumulated depreciation	(18,897 )	(18,354 )
Investment in operating lease equipment—net (1)	\$ 17,738	\$ 17,929

(1) Amounts include estimated unguaranteed residual values of \$3,417 thousand and \$4,340 thousand as of March 31, 2016 and 2015, respectively.

Future scheduled minimum lease rental payments as of March 31, 2016 are as follows (in thousands):

Year ending March 31, 2017	\$8,293
2018	5,935
2019	2,501
2020	1,025
2021 and thereafter	755
Total	\$18,509

## TRANSFERS OF FINANCIAL ASSETS

We enter into arrangements to transfer the contractual payments due under financing receivables and operating lease agreements, which are accounted for as sales or secured borrowings in accordance with Codification Topic, Transfers and Servicing. For transfers accounted for as a secured borrowing, the corresponding investments serve as collateral for non-recourse notes payable. As of March 31, 2016 and 2015 we had financing receivables and operating leases of \$50.0 million and \$61.9 million, respectively that were collateral for non-recourse notes payable. See Note 7, "Notes Payable and Credit Facility."

For transfers accounted for as sales, we derecognize the carrying value of the asset transferred and recognize a net gain or loss on the sale, which are presented within net sales in the consolidated statement of operations. For the years ended March 31, 2016, 2015, and 2014, we recognized net gains of \$7.4 million, \$5.9 million, and \$8.5 million, respectively, and total proceeds from these sales were \$223.3 million, \$181.3 million, and \$187.2 million, respectively. For certain assignments of financial assets, we retain a servicing obligation. For assignments accounted for as sales, we allocate a portion of the proceeds to deferred revenues, which is recognized as we perform the services. In a limited number of such sales, we indemnified the assignee in the event that the lessee elected to early terminate the lease. Our maximum potential future payments related to such guarantees is \$0.8 million. We believe the possibility of making any payments to be remote.

## 4. GOODWILL AND OTHER INTANGIBLE ASSETS

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

March 31, 2016			March 31, 2015		
Gross Carrying Amount	Accumulated Amortization / Impairment	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization / Impairment	Net Carrying Amount

Edgar Filing: EPLUS INC - Form 10-K

	Loss			Loss		
Goodwill	\$50,824	\$ (8,673	) \$42,151	\$42,785	\$ (8,673	) \$34,112
Customer relationships & other intangibles	20,401	(9,193	) 11,208	12,005	(6,560	) 5,445
Capitalized software development	2,709	(1,914	) 795	2,693	(1,452	) 1,241
Total	\$73,934	\$ (19,780	) \$54,154	\$57,483	\$ (16,685	) \$40,798

F - 18

---

Table of Contents

## GOODWILL

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 7 years. Trade names and trademarks are amortized over an estimated useful life of 10 years. All of our goodwill as of March 31, 2016 and March 31, 2015 is related to our technology segment.

Goodwill increased by \$8.0 million for the year ended March 31, 2016 due to the addition of \$8.1 million from the acquisition of the businesses of IGX Acquisition Global, LLC, IGXGlobal UK Limited, and IGX Support, LLC (collectively, "IGX") in December, 2015 and offset by \$0.2 million in foreign currency translation. See Note 14, "Business Combinations," for additional information.

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

During the quarter ended December 31, 2015, we performed a qualitative assessment for goodwill in accordance with the provisions of Codification Topic Intangibles – Goodwill and Other, and concluded that the fair value of our reporting units, more likely than not, exceeded their respective carrying amounts as of October 1, 2015.

During the quarter ended December 31, 2014, we elected to bypass the qualitative assessment of goodwill and estimate the fair values of the reporting units. The fair value of our reporting units substantially exceeded their respective carrying values as of October 1, 2014, and our conclusions regarding the recoverability of goodwill would not be impacted by a ten percent change in their fair values.

## OTHER INTANGIBLE ASSETS

Total amortization expense was \$3.3 million, \$2.4 million, and \$1.5 million for the years ended March 31, 2016, 2015 and 2014, respectively. Amortization expense is estimated to be \$4.4 million, \$2.9 million, \$2.2 million, \$1.5 million, and \$0.9 million for the years ended March 31, 2017, 2018, 2019, 2020, and 2021, respectively.

## 5. RESERVES FOR CREDIT LOSSES

Activity in our reserves for credit losses for the years ended March 31, 2016, 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	126	(172 )	(196 )	(242 )
Write-offs and other	(168 )	(20 )	-	(188 )
Balance March 31, 2016	\$ 1,127	\$ 3,381	\$ 685	\$5,193
	Accounts Receivable	Notes Receivable	Lease-Related Receivables	Total
Balance April 1, 2014	\$ 1,364	\$ 3,364	\$ 1,024	\$5,752
Provision for credit losses	28	209	(112 )	125
Write-offs and other	(223 )	-	(31 )	(254 )
Balance March 31, 2015	\$ 1,169	\$ 3,573	\$ 881	\$5,623

Edgar Filing: EPLUS INC - Form 10-K

	Accounts Receivable	Notes Receivable	Lease-Related Receivables	Total
Balance April 1, 2013	\$ 1,147	\$ 3,137	\$ 845	\$5,129
Provision for credit losses	344	227	179	750
Write-offs and other	(127 )	-	-	(127 )
Balance March 31, 2014	\$ 1,364	\$ 3,364	\$ 1,024	\$5,752

F - 19

---

Table of Contents

Our reserve for credit losses and minimum lease payments associated with our investment in direct financing and sales-type lease balances disaggregated on the basis of our impairment method were as follows (in thousands):

	March 31, 2016		March 31, 2015	
	Notes	Lease-Related Receivables	Notes	Lease-Related Receivables
Reserves for credit losses:				
Ending balance: collectively evaluated for impairment	\$ 279	\$ 562	\$ 440	\$ 740
Ending balance: individually evaluated for impairment	3,102	123	3,133	141
Ending balance	\$ 3,381	\$ 685	\$ 3,573	\$ 881
Minimum payments:				
Ending balance: collectively evaluated for impairment	\$ 41,340	\$ 66,161	\$ 56,525	\$ 66,255
Ending balance: individually evaluated for impairment	3,102	142	3,418	160
Ending balance	\$ 44,442	\$ 66,303	\$ 59,943	\$ 66,415

The net credit exposure for the balance evaluated individually for impairment as of March 31, 2016 was \$3.2 million, which is related to a customer in bankruptcy. The note and lease receivables associated with this customer are on non-accrual status.

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 March 31, 2016 and 2015 (in thousands):

	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Unbilled Lease Payments	Total Minimum Lease Payments	Non-Recourse Unearned Income	Non-Recourse Notes Payable	Net Credit Exposure
March 31, 2016										
High CQR	\$ 575	\$ 52	\$ 94	\$ 721	\$ 984	\$ 46,157	\$ 47,862	\$ (2,705 )	\$ (22,914 )	\$ 22,243
Average CQR	15	17	78	110	159	18,030	18,299	(1,387 )	(8,714 )	8,198
Low CQR	-	-	142	142	-	-	142	(19 )	-	123
Total	\$ 590	\$ 69	\$ 314	\$ 973	\$ 1,143	\$ 64,187	\$ 66,303	\$ (4,111 )	\$ (31,628 )	\$ 30,564
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

Table of Contents

The age of the recorded notes receivable balance disaggregated based on our internally assigned CQR were as follows as March 31, 2016 and 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
March 31, 2016									
High CQR	\$ 399	\$ 305	\$ 2,168	\$2,872	\$ 301	\$ 24,092	\$ 27,265	\$(11,644)	\$ 15,621
Average CQR	-	-	-	-	202	13,873	14,075	(9,942 )	4,133
Low CQR	-	-	3,102	3,102	-	-	3,102	-	3,102
Total	\$ 399	\$ 305	\$ 5,270	\$5,974	\$ 503	\$ 37,965	\$ 44,442	\$(21,586)	\$ 22,856
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 high 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.

## 6. PROPERTY, EQUIPMENT, AND OTHER ASSETS AND LIABILITIES

## PROPERTY AND EQUIPMENT—NET

Property and equipment—net consists of the following (in thousands):

	March 31, 2016	March 31, 2015
Furniture, fixtures and equipment	\$ 15,033	\$ 13,781
Vehicles	370	370
Capitalized software	4,018	4,007
Leasehold improvements	3,978	3,497
Total assets	23,399	21,655
Accumulated depreciation and amortization	(17,133 )	(15,528 )
Property and equipment - net	\$ 6,266	\$ 6,127

For the years ended March 31, 2016, 2015 and 2014, depreciation expense on property and equipment was \$2.3 million, \$1.5 million, and \$1.3 million, respectively.

Table of Contents

## OTHER ASSETS AND LIABILITIES

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

	March 31, 2016	March 31, 2015
<u>Other current assets:</u>		
Deposits & funds held in escrow	\$ 3,116	\$ 4,281
Prepaid assets	6,683	2,652
Other	850	480
Total other current assets	\$ 10,649	\$ 7,413
<u>Other assets:</u>		
Deferred costs	\$ 1,831	\$ 2,308
Property and equipment, net	6,266	6,127
Other	547	813
Total other assets - long term	\$ 8,644	\$ 9,248
	March 31, 2016	March 31, 2015
<u>Other current liabilities:</u>		
Accrued expenses	\$ 7,109	\$ 5,302
Deferred compensation	-	222
Other	6,009	8,051
Total other current liabilities	\$ 13,118	\$ 13,575
<u>Other liabilities:</u>		
Deferred revenue	\$ 1,866	\$ 2,923
Other	397	890
Total other liabilities - long term	\$ 2,263	\$ 3,813

## 7. NOTES PAYABLE AND CREDIT FACILITY

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

	March 31, 2016	March 31, 2015
Recourse notes payable with interest rates ranging from 2.70% and 4.13% at March 31, 2016 and ranging from 2.24% and 4.13% at March 31, 2015.		
Current	\$ 2,288	\$ 889
Long-term	1,054	2,801
Total recourse notes payable	\$ 3,342	\$ 3,690
Non-recourse notes payable secured by financing receivables and investments in operating leases with interest rates ranging from 1.70% to 8.50% at March 31, 2016 and ranging from 1.70% to 10.00% as of March 31, 2015.		
Current	\$ 26,042	\$ 28,560
Long-term	18,038	24,314
Total non-recourse notes payable	\$ 44,080	\$ 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 3.13% and 3.23%, as of March 31, 2016 and March 31, 2015, respectively. The weighted average interest rate for our recourse notes payable was 3.24% and 3.19%, as of March 31, 2016 and March 31, 2015, respectively. Under recourse financing, in the event of a default by a customer, the lender has recourse against 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.

F - 22

---

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. The 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, which is presented within other income in our 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 Wells Fargo Commercial Distribution Finance, LLC or WFCDF. This facility provides short-term capital for our technology segment. There are two components of the WFCDF credit facility: (1) a floor plan component and (2) an accounts receivable component. Under the floor plan component, we had outstanding balances of \$121.9 million and \$99.4 million as of March 31, 2016 and 2015, respectively. Under the accounts receivable component, we had no outstanding balances as of March 31, 2016 and 2015. As of March 31, 2016, the facility agreement had an aggregate limit of the two components of \$250 million, and the accounts receivable component had a sub-limit of \$30 million, which bears interest assessed at a rate of the One Month LIBOR plus two and one half percent.

The credit facility has full recourse to ePlus Technology, inc. and is secured by a blanket lien against all its assets, such as receivables and inventory. Availability under the facility may be limited by the asset value of equipment we purchase or accounts receivable, and may be further limited by certain covenants and terms and conditions of the facility. These covenants include but are not limited to a minimum excess availability of the facility and minimum earnings before interest, taxes, depreciation and amortization (“EBITDA”) of ePlus Technology, inc. We were in compliance with these covenants as of March 31, 2016. In addition, the facility restricts the ability of ePlus Technology, inc. to transfer funds to its affiliates in the form of dividends, loans or advances with certain exceptions for dividends to ePlus inc. The facility also requires that financial statements of ePlus Technology, inc. be provided within 45 days of each quarter and 90 days of each fiscal year end and also includes that other operational reports be provided on a regular basis. Either party may terminate with 90 days’ advance notice. We are not, and do not believe that we are reasonably likely to be, in breach of the WFCDF credit facility. In addition, we do not believe that the covenants of the WFCDF credit facility materially limit our ability to undertake financing. In this regard, the covenants apply only to our subsidiary, ePlus Technology, inc. This credit facility is secured by the assets of only ePlus Technology, inc. and the guaranty as described below.

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

Recourse and non-recourse notes payable as of March 31, 2016, mature as follows (in thousands):

	Recourse Notes Payable	Non-Recourse Notes Payable
Year ending March 31, 2017	\$ 2,288	\$ 26,042
2018	1,054	12,513
2019	-	3,988
2020	-	1,055
2021 and thereafter	-	482
	\$ 3,342	\$ 44,080

Table of Contents

## 8. COMMITMENTS AND CONTINGENCIES

We lease office space and certain office equipment to conduct our business. Annual rent expense relating to these operating leases was \$4.9 million, \$4.7 million, and \$3.8 million for the years ended March 31, 2016, 2015 and 2014, respectively. As of March 31, 2016, the future minimum lease payments are due as follows (in thousands):

Contractual Obligations

Year ending March 31, 2017	\$4,207
2018	3,393
2019	1,875
2020	951
2021 and thereafter	382
Operating lease obligations (1)	\$10,808

(1) Excluding taxes, insurance and common area maintenance charges.

## Legal Proceedings

On May 23, 2011, the United States District Court for the Eastern District of Virginia entered judgment in our favor, against Lawson Software, Inc. (“Lawson”), for \$18.2 million, in a lawsuit we filed against Lawson alleging patent infringement. Subsequently, the United States Patent and Trademark Office canceled the patent, and the Federal Circuit Court of Appeals vacated the judgment. On February 29, 2016 the United States Supreme Court denied our petition for certiorari, in which we asked the court to hear our appeal. As a result, the lawsuit has concluded.

We are not currently a party to any legal proceedings with loss contingencies that are expected to be material. From time to time, we have been a plaintiff, or may be named as a defendant, in legal actions arising from our normal business activities, none of which has had a material effect on our business, results of operations or financial condition. Legal proceedings which may arise in the ordinary course of business including preference payment claims asserted in customer bankruptcy proceedings, tax audits, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, claims of alleged non-compliance with contract provisions, employment related claims, claims by competitors, vendors or customers, claims related to alleged violations of laws and regulations, and claims relating to alleged security or privacy breaches. We attempt to ameliorate the effect of potential litigation through insurance coverage and contractual protections such as rights to indemnifications and limitations of liability. We do not expect that the outcome in any of these matters, individually or collectively, will have a material adverse effect on our financial condition or results of operations, however, litigation is inherently unpredictable. Therefore, judgments could be rendered or settlements entered that could adversely affect our results of operations or cash flows in a particular period. We provide for costs related to contingencies when a loss is probable and the amount is reasonably determinable.

## Contingencies Related to Third-Party Review

From time to time, we are subject to potential claims and assessments from third parties. We are also subject to various governmental, customer and partner audits. We continually assess whether or not such claims have merit and warrant accrual. Where appropriate, we accrue estimates of anticipated liabilities in our consolidated financial statements. Such estimates are subject to change and may affect our results of operations and our cash flows.

## Employment Contracts and Severance Plans

We have employment contracts with, and plans covering certain members of management under which severance payments would become payable in the event of specified terminations without cause or terminations under certain circumstances after a change in control. In addition, vesting of non-vested restricted stock awards would accelerate following a change in control. If severance payments under the current employment agreements or plan payments were to become payable, the severance payments would generally range from twelve to twenty-six months of salary.

F - 24

---

Table of Contents

## 9. 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. Certain unvested shares of restricted stock awards (“RSAs”) contain non-forfeitable rights to dividends, whether paid or unpaid. As a result, these RSAs are considered participating securities because their holders have the right to participate in earnings with common stockholders. We use the two-class method to allocate net income between common shares and other participating securities. As of March 31, 2016, 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.

The following table provides a reconciliation of the numerators and denominators used to calculate basic and diluted net earnings per common share as disclosed in our consolidated statements of operations for the fiscal years ended March 31, 2016, 2015, and 2014 (in thousands, except per share data).

	Year Ended March 31,		
	2016	2015	2014
<u>Basic and diluted common shares outstanding:</u>			
Weighted average common shares outstanding — basic	7,256	7,318	7,927
Effect of dilutive shares	88	75	72
Weighted average shares common outstanding — diluted	7,344	7,393	7,999
<u>Calculation of earnings per common share - basic:</u>			
Net earnings	\$44,747	\$45,840	\$35,273
Net earnings attributable to participating securities	-	59	307
Net earnings attributable to common shareholders	\$44,747	\$45,781	\$34,966
Earnings per common share - basic	\$6.17	\$6.26	\$4.41
<u>Calculation of earnings per common share - diluted:</u>			
Net earnings attributable to common shareholders— basic	\$44,747	\$45,781	\$34,966
Add: undistributed earnings attributable to participating securities	-	1	3
Net earnings attributable to common shareholders— diluted	\$44,747	\$45,782	\$34,969
Earnings per common share - diluted	\$6.09	\$6.19	\$4.37

There were no unexercised stock options during the years ended March 31, 2016 and 2015. All unexercised stock options were included in the computations of diluted earnings per common share for the year ended March 31, 2014.

## 10. STOCKHOLDERS' EQUITY

On August 13, 2015, our board of directors authorized the Company to repurchase up to 500,000 shares of our 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. This new authorization replaced the company's previous repurchase plan which expired on June 15, 2015.

During the year ended March 31, 2016, we repurchased 116,302 shares of our outstanding common stock at an average cost of \$76.21 per share for a total purchase price of \$8.9 million under the share repurchase plans. We also

purchased 30,447 shares of common stock to satisfy tax withholding obligations to the vesting of employees' restricted stock.

F - 25

---

## Table of Contents

During the year ended March 31, 2015, we repurchased 700,113 shares of our outstanding common stock at an average cost of \$50.93 per share for a total purchase price of \$35.7 million under the share repurchase plan, and 35,158 were repurchased to satisfy tax withholding obligations due to the vesting of employees' restricted stock.

Since the inception of our initial repurchase program on September 20, 2001 to March 31, 2016, we have repurchased approximately 5.7 million shares of our outstanding common stock at an average cost of \$21.15 per share for a total purchase price of \$120.5 million.

## 11. SHARE-BASED COMPENSATION

### Share-Based Plans

We have 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"). For the year ended March 31, 2016, awards were issued under the 2008 Director LTIP and the 2012 Employee LTIP. All the share-based plans defined fair market value as the previous trading day's closing price when the grant date falls on a date the stock was not traded.

### 2008 Director LTIP

On September 15, 2008, our stockholders approved the 2008 Director LTIP that was adopted by the Board on June 25, 2008. Under the 2008 Director LTIP, 250,000 shares were authorized for grant to non-employee directors. The purpose of the 2008 Director LTIP is to align the economic interests of the directors with the interests of stockholders by including equity as a component of pay and to attract, motivate and retain experienced and knowledgeable directors. In addition, each director will receive an annual grant of restricted stock having a grant-date fair value equal to the cash compensation earned by an outside director during our fiscal year ended immediately before the respective annual grant-date. Directors may elect to receive their cash compensation in restricted stock. These restricted shares are prohibited from being sold, transferred, assigned, pledged or otherwise encumbered or disposed of. Half of these shares will vest on the one-year anniversary and another half of these shares will vest on the second-year anniversary from the date of the grant.

### 2012 Employee LTIP

On September 13, 2012, our stockholders approved the 2012 Employee LTIP that was adopted by the Board on July 10, 2012. Under the 2012 Employee LTIP, 750,000 shares were authorized for grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, or other share-based awards to ePlus employees. The purpose of the 2012 Employee LTIP is to encourage our employees to acquire a proprietary interest in the growth and performance of ePlus, thus enhancing the value of ePlus for the benefit of its stockholders, and to enhance our ability to attract and retain exceptionally qualified individuals. The 2012 Employee LTIP is administered by the Compensation Committee. Shares issuable under the 2012 Employee LTIP may consist of authorized but unissued shares or shares held in our treasury. Shares under the 2012 Employee LTIP will not be used to compensate our outside directors, who may be compensated under the separate 2008 Director LTIP, as discussed above. Under the 2012 Employee LTIP, the Compensation Committee will determine the time and method of exercise of the awards.

### Stock Option Activity

During the years ended March 31, 2016 and 2015, there were no stock options granted to employees and we had no outstanding stock options.



Table of Contents

## Restricted Stock Activity

We estimate the forfeiture rate of the restricted stock to be zero. As of March 31, 2016, we have granted 122,951 shares under the 2008 Director LTIP and 274,254 restricted shares under the 2012 Employee LTIP.

A summary of the non-vested restricted shares is as follows:

	Number of Shares	Weighted Average Grant- date Fair Value
Non-vested April 1, 2015	176,514	\$ 52.75
Granted	125,562	\$ 81.78
Vested	(95,927 )	\$ 48.87
Forfeited	(2,321 )	\$ 64.06
Non-vested March 31, 2016	203,828	\$ 72.33

Upon each vesting period of the restricted stock awards to employees, participants are subject to minimum tax withholding obligations. The 2008 Director LTIP and the 2012 Employee LTIP allow the Company, at the participant's election, to withhold a sufficient number of shares due to the participant to satisfy their minimum tax withholding obligations. For the year ended March 31, 2016, the Company had withheld 30,447 shares of common stock at a value of \$2.5 million, which was included in treasury stock. For the year ended March 31, 2015, the Company had withheld 35,158 shares of common stock at a value of \$2.0 million, which was included in treasury stock.

## Compensation Expense

We recognize compensation cost for awards of restricted stock with graded vesting on a straight line basis over the requisite service period and estimate the forfeiture rate to be zero, based on historical experience. There are no additional conditions for vesting other than service conditions. During the years ended March 31, 2016, 2015 and 2014 we recognized \$5.7 million, \$4.6 million and \$4.0 million, respectively, of total share-based compensation expense. Unrecognized compensation expense related to non-vested restricted stock was \$10.0 million, which will be fully recognized over the next 51 months.

We also provide our employees with a contributory 401(k) profit sharing 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 years ended March 31, 2016, 2015 and 2014, our employer contributions for the plan were approximately \$1.4 million, \$1.4 million and \$1.1 million, respectively.

## 12. INCOME TAXES

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

As of March 31, 2015, we had \$72 thousand of total gross unrecognized tax benefits recorded for uncertain income tax position in accordance with Income Taxes in the Codification. During the year ended March 31, 2016, we had no additions or reductions for uncertain income tax positions therefore our balance remains unchanged at \$72 thousand.

F - 27

---

Edgar Filing: EPLUS INC - Form 10-K

Table of Contents

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

	Year Ended March 31,	
	2016	2015
Beginning balance	\$ 72	\$ 149
Reductions to uncertain tax positions	-	(77 )
Ending balance	\$ 72	\$ 72

At March 31, 2016, 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 have been \$104 thousand. At March 31, 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 have been \$101 thousand.

In accordance with our accounting policy, we recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the fiscal years ended March 31, 2016 and 2015, we recognized \$4 thousand of interest in both years related to uncertain tax positions, and did not recognize any additional penalties. We had \$48 thousand and \$43 thousand accrued for the payment of interest at March 31, 2016 and 2015, respectively.

We file income tax returns, including returns for our subsidiaries, with federal, state, local, and foreign jurisdictions. Tax years 2012, 2013 and 2014 are subjected to examination by federal and state taxing authorities. Various state and local income tax returns are also under examination by taxing authorities. We do not believe that the outcome of any examination will have a material impact on our financial statements.

A reconciliation of income taxes computed at the statutory federal income tax rate of 35% to the provision for income taxes included in the consolidated statements of operations is as follows (in thousands, except percentages):

	Year Ended March 31,					
	2016		2015		2014	
Statutory federal income tax rate	35	%	35	%	35	%
Income tax expense computed at the U.S. statutory federal rate	\$26,513		\$27,410		\$21,040	
State income tax expense—net of federal benefit	3,544		4,193		3,080	
Non-deductible executive compensation	331		222		248	
Other	616		648		457	
Provision for income taxes	\$31,004		\$32,473		\$24,825	
Effective income tax rate	40.9	%	41.5	%	41.3	%

The components of the provision for income taxes are as follows (in thousands):

	Year Ended March 31,		
	2016	2015	2014
<u>Current:</u>			
Federal	\$21,361	\$27,665	\$23,313
State	6,114	6,667	5,033
Foreign	13	3	15
Total current expense	27,488	34,335	28,361
<u>Deferred:</u>			
Federal	3,727	(1,591 )	(3,274 )

Edgar Filing: EPLUS INC - Form 10-K

State	(211 )	(271 )	(262 )
Total deferred expense (benefit)	3,516	(1,862 )	(3,536 )
Provision for income taxes	\$31,004	\$32,473	\$24,825

F - 28

---

Table of Contents

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities were as follows (in thousands):

	March 31,	
	2016	2015
<u>Deferred Tax Assets:</u>		
Accrued vacation	\$2,116	\$1,955
Deferred compensation	-	89
Deferred revenue	1,046	369
Foreign net operating loss carryforward	461	-
Reserve for credit losses	1,929	2,066
Restricted stock	1,778	1,431
Other credits and carryforwards	1,275	1,235
Other accruals and reserves	1,556	687
Gross deferred tax assets	10,161	7,832
Less: valuation allowance	(1,270 )	(1,223)
Net deferred tax assets	8,891	6,609
<u>Deferred Tax Liabilities:</u>		
Basis difference in fixed assets	(1,170 )	(1,238)
Basis difference in operating leases	(7,749 )	(2,356)
Basis difference in tax deductible goodwill	(2,973 )	(2,411)
Total deferred tax liabilities	(11,892)	(6,005)
Net deferred tax (liabilities) assets	\$(3,001 )	\$604

The effective income tax rate for the year ended March 31, 2016 was 40.9%, compared to 41.5% of the previous fiscal year.

As of March 31, 2016, we have state capital loss carryforwards of approximately \$1.3 million, which have been fully reserved. The valuation allowance resulted from management's determination, based on available evidence, that it was more likely than not that the state capital loss deferred tax asset balance may not be realized. If not realized, the state capital loss carryforwards will generally expire in 5 years.

As of March 31, 2016, we have a foreign net operating loss of approximately \$0.5 million related to operations in the United Kingdom. No valuation allowance was recognized as a result of management's determination, based on available evidence, that it was more likely than not that the foreign net operating loss deferred tax asset balance will be realized. The foreign net operating loss is not set to expire.

Table of Contents

## 13. FAIR VALUE MEASUREMENTS

We account for the fair values of our assets and liabilities in accordance with Codification Topic Fair Value Measurement and Disclosure. Accordingly, we established a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value.

The following tables summarize the fair value hierarchy of our financial instruments as of March 31, 2016 and 2015 (in thousands):

	Recorded Amount	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>March 31, 2016</u>				
Assets:				
Money market funds	\$ 39,509	\$ 39,509	\$ -	\$ -
Liabilities:				
Contingent consideration	\$ 1,041	\$ -	\$ -	\$ 1,041
<u>March 31, 2015</u>				
Assets:				
Money market funds	\$ 25,004	\$ 25,004	\$ -	\$ -
Liabilities:				
Contingent consideration	\$ 1,830	\$ -	\$ -	\$ 1,830

For the year ended March 31, 2016, we recorded adjustments that increased the fair value of our liability for contingent consideration by \$369 thousand. We recorded an adjustment to decrease by \$150 thousand the fair value of the contingent consideration during the year ended March 31, 2015. These adjustments were presented within general and administrative expenses in our consolidated statement of operations. We estimated the fair value using a Monte Carlo simulation model.

During the year ended March 31, 2016 we paid \$1.2 million to satisfy the current obligations of the contingent consideration arrangement.

## 14. BUSINESS COMBINATIONS

IGX acquisition

On December 4, 2015, our subsidiary ePlus Technology, inc., acquired certain assets and assumed certain liabilities of IGX Acquisition Global, LLC (“IGX Acquisition”), and IGX Support, LLC, including IGX Acquisition’s wholly-owned subsidiary, IGXGlobal UK Limited (collectively, “IGX”), which provide advanced security solutions, secured networking products and related professional services to a diverse set of domestic and international customers including commercial, enterprise, and state, local, and education (SLED) organizations. IGX is headquartered near Hartford, CT and has a sales presence in New York and Boston as well as an operating branch in London that serves its United Kingdom (“UK”) and global customers. IGXGlobal UK Limited is a private limited company, registered in England and Wales.

F - 30

---

Table of Contents

The total purchase price, net of cash acquired, was \$16.6 million paid in cash. The allocation of the purchase consideration to the assets acquired and liabilities assumed is presented below (in thousands):

	Acquisition Date Amount
Accounts receivable—trade, net	\$ 8,457
Property and equipment	81
Identified intangible assets	8,710
Accounts payable and other current liabilities	(8,641 )
Deferred tax liability	(89 )
 Total identifiable net assets	 8,518
Goodwill	8,131
 Total purchase consideration	 \$ 16,649

The identified intangible assets consist of the following:

	Estimated Useful Lives (in years)	Acquisition Date Amount
Intangible assets—customer relationships	7	\$ 7,680
Intangible assets—trade names	10	520
Intangible assets—backlog	1	510
 Total identified intangible assets		 \$ 8,710

We assigned goodwill related to this transaction of \$8.1 million, which was assigned to our technology reporting unit. The goodwill recognized in the acquisition is attributable to the acquired assembled workforce, an entry into the UK and European markets and expected synergies, none of which qualify for recognition as a separate intangible asset. The total amount of goodwill that is expected to be deductible for tax purposes is \$5.8 million. The impact to our revenues and net earnings from this acquisition is not material.

Evolve acquisition

On August 18, 2014, our subsidiary, ePlus Technology, inc., acquired the operating assets and assumed certain liabilities of Granite Business Solutions, Inc. dba Evolve Technology Group (“Evolve”). Located in Sacramento, CA, Evolve provided information security, collaboration, virtualization and data center solutions to an established customer base of state, local and educational institutions, as well as commercial enterprises. Our acquisition expands our presence in the western United States.

The total purchase price was \$10.5 million, which consists of cash paid, amounts to be paid to Evolve upon collection of certain accounts receivables, and the fair value of contingent consideration. We estimated the fair value of the contingent consideration to be \$2.0 million as of the acquisition date using a Monte Carlo simulation model. The maximum payout for contingent consideration is \$2.5 million over 3 years. The purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values on the transaction date, including identifiable intangible assets of \$4.0 million related to customer relationships with an estimated useful life of 6 years, and other net assets of \$0.6 million. We recognized goodwill related to this transaction of \$4.5 million, which was

assigned to our technology reporting unit. The goodwill recognized in the acquisition is attributable to the acquired assembled workforce, their presence in the western United States, and expected synergies, none of which qualify for recognition as a separate intangible asset. Goodwill associated with the acquisition is deductible for tax purposes.

F - 31

---

Table of Contents

## 15. SEGMENT REPORTING

The Company's segment information is presented in accordance with a "management approach," which designates the internal reporting used by the chief operating decision-maker for deciding how to allocate resources and for assessing performance. Our operations are conducted through two business segments. In our technology segment, our customers view technology purchases as integrated solutions, rather than discrete product and service categories and the majority of our sales are derived from integrated solutions involving our customers' data center, network, and collaboration infrastructure. Our financing segment offers financing solutions for IT and medical equipment, and related software, maintenance and services.

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

<u>Statement of Operations</u>	Year Ended March 31, 2016			2015			2014		
	Technology	Financing	Total	Technology	Financing	Total	Technology	Financing	Total
Sales of product and services	\$1,163,337	\$-	\$1,163,337	\$1,100,884	\$-	\$1,100,884	\$1,013,374	\$-	\$1,013,374
Financing revenue	-	35,091	35,091	-	34,728	34,728	-	35,896	35,896
Fee and other income	5,728	43	5,771	7,565	105	7,670	8,037	229	8,266
Net sales	1,169,065	35,134	1,204,199	1,108,449	34,833	1,143,282	1,021,411	36,125	1,057,536
Cost of sales, product and services	931,782	-	931,782	887,673	-	887,673	827,875	-	827,875
Direct lease costs	-	10,360	10,360	-	11,062	11,062	-	12,748	12,748
Cost of sales	931,782	10,360	942,142	887,673	11,062	898,735	827,875	12,748	840,623
Professional and other fees	5,505	1,041	6,546	5,340	1,168	6,508	7,557	1,484	9,041
Salaries and benefits	140,086	9,218	149,304	128,945	9,141	138,086	113,481	9,670	123,151
General and administrative expenses	22,401	729	23,130	21,127	1,404	22,531	18,334	1,549	19,883
Depreciation and amortization	5,532	16	5,548	4,310	23	4,333	2,769	23	2,792
Interest and financing costs	70	1,708	1,778	96	2,283	2,379	84	1,864	1,948
Operating expenses	173,594	12,712	186,306	159,818	14,019	173,837	142,225	14,590	156,815
Operating income	\$63,689	\$12,062	\$75,751	\$60,958	\$9,752	\$70,710	\$51,311	\$8,787	\$60,098

Selected Financial Data - Statement of  
Cash Flow

Depreciation and amortization	\$5,641	\$10,339	\$15,980	\$4,450	\$11,125	\$15,575	\$2,838	\$11,917	\$14,755
Purchases of property, equipment and operating lease equipment	\$2,442	\$12,026	\$14,468	\$3,610	\$8,306	\$11,916	\$4,238	\$5,714	\$9,952

Selected Financial Data -  
Balance Sheet

Total assets	\$427,580	\$189,100	\$616,680	\$368,971	\$199,304	\$568,275	\$335,879	\$217,966	\$553,845
--------------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------

F - 32

---

Table of Contents

The geographic information for the years ended March 31, 2016, 2015 and 2014 was as follows (in thousands):

	Year Ended March 31,		
	2016	2015	2014
<u>Net sales:</u>			
U.S.	\$1,186,904	\$1,124,371	\$1,042,446
Non U.S.	17,295	18,911	15,090
Total	\$1,204,199	\$1,143,282	\$1,057,536

	As of March 31,	
	2016	2015
<u>Long-lived tangible assets:</u>		
U.S.	\$22,632	\$22,550
Non U.S.	1,427	1,608
Total	\$24,059	\$24,158

Our long-lived tangible assets include property and equipment-net, operating leases-net, and equipment that has been returned to us at the termination of the lease.

No single customer accounted for more than 10% of net sales for the years ended March 31, 2016, and 2015. For the year ended March 31, 2014, sales to a large telecommunications company were approximately 11% of net sales, all of which related to our technology segment.

## 16. QUARTERLY DATA —UNAUDITED

Condensed quarterly financial information is as follows (amounts in thousands, except per share amounts):

	Year Ended March 31, 2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Amount
Net sales	\$269,866	\$336,286	\$298,644	\$299,403	\$1,204,199
Cost of sales	210,736	264,365	234,584	232,457	942,142
Gross profit	59,130	71,921	64,060	66,946	262,057
Operating expenses	44,064	45,260	46,415	50,567	186,306
Operating income	15,066	26,661	17,645	16,379	75,751
Earnings before provision for income taxes	15,066	26,661	17,645	16,379	75,751
Provision for income taxes	6,252	10,982	7,348	6,422	31,004
Net earnings	\$8,814	\$15,679	\$10,297	\$9,957	\$44,747
Net earnings per common share—Basic (1)	\$1.22	\$2.16	\$1.41	\$1.37	\$6.17
Net earnings per common share—Diluted (1)	\$1.21	\$2.15	\$1.40	\$1.36	\$6.09

Table of Contents

	Year Ended March 31, 2015				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Amount
Net sales	\$272,304	\$297,472	\$306,241	\$267,265	\$1,143,282
Cost of sales	215,865	233,548	240,803	208,519	898,735
Gross profit	56,439	63,924	65,438	58,746	244,547
Operating expenses	41,697	43,598	44,876	43,666	173,837
Operating income	14,742	20,326	20,562	15,080	70,710
Other income	1,434	-	6,169	-	7,603
Earnings before provision for income taxes	16,176	20,326	26,731	15,080	78,313
Provision for income taxes	6,699	8,374	11,230	6,170	32,473
Net earnings	\$9,477	\$11,952	\$15,501	\$8,910	\$45,840
Net earnings per common share—Basic (1)	\$1.26	\$1.63	\$2.14	\$1.23	\$6.26
Net earnings per common share—Diluted (1)	\$1.25	\$1.63	\$2.13	\$1.22	\$6.19

(1) Basic and diluted earnings per share are computed independently for each of the quarters presented. Therefore, the sum of quarterly basic and diluted per share information may not equal annual basic and diluted earnings per share.

Table of Contents

ePlus inc. AND SUBSIDIARIES

Schedule II - Valuation and Qualifying Accounts

(Dollars in thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions/ Write-Offs	Balance at End of Period
<u>Allowance for Sales Returns: (1)</u>				
Year Ended March 31, 2014	543	1,079	(1,030 )	592
Year Ended March 31, 2015	592	1,009	(988 )	613
Year Ended March 31, 2016	613	1,500	(1,460 )	653
<u>Reserve for Credit Losses:</u>				
Year Ended March 31, 2014	5,129	750	(127 )	5,752
Year Ended March 31, 2015	5,752	125	(254 )	5,623
Year Ended March 31, 2016	5,623	(242 )	(188 )	5,193
<u>Valuation for Deferred Taxes:</u>				
Year Ended March 31, 2014	1,505	(218 )	-	1,287
Year Ended March 31, 2015	1,287	(64 )	-	1,223
Year Ended March 31, 2016	1,223	47	-	1,270

These amounts represent the gross profit effect of sales returns during the respective years. Expected merchandise (1) returns after year-end for sales made before year-end were \$4.0 million, \$3.8 million, and \$3.6 million as of March 31, 2016, 2015, and 2014, respectively.

S-1