

EPLUS INC
Form 10-K
May 25, 2018

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, 2018

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

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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

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

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

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

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

The 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, 2017 was \$1,267,247,743. The outstanding number of shares of common stock of ePlus as of May 22, 2018, was 13,699,494.

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 2018 annual meeting of stockholders (the "2018 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2018 Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the Company's fiscal year end to which this report relates.

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CAUTIONARY LANGUAGE ABOUT FORWARD-LOOKING STATEMENTS

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

- national and international political instability fostering uncertainty and volatility in the global economy including exposure to fluctuation in foreign currency rates, and downward pressure on prices;
- domestic and international economic regulations uncertainty (i.e. tariffs, NAFTA, and Tran-pacific Partnership, etc).
- significant adverse changes in, reductions in, or loss of our largest volume customer or one or more of our large volume customers, or vendors;
- exposure to changes in, interpretations of, or enforcement trends in legislation and regulatory matters;
- the creditworthiness of our customers and our ability to reserve adequately for credit losses;
- reduction of vendor incentives provided to us;
- we offer a comprehensive set of solutions integrating product sales, third-party software assurance and maintenance with our advanced professional and managed services, our proprietary software, and financing and encounter the following challenges, risks, difficulties and uncertainties:
- managing a diverse product set of solutions in highly competitive markets with a number of key vendors;
- increasing the total number of customers using 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, competent personnel, and vendor certifications;
- increasing the total number of customers who use our managed services and professional services and continuing to enhance our managed services offerings to remain competitive in the marketplace;
- performing professional and managed services competently;
- 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 to our customers;
- changes in the IT industry and/or rapid changes in product offerings, including the proliferation of the cloud, infrastructure as a service (IaaS”), and software as a service (“SaaS”);
- our dependency on continued innovations in hardware, software, and services offerings by our vendors and our ability to partner with them;
- future growth rates in our core businesses;
- failure to comply with public sector contracts or applicable laws;
- changes to or loss of members of our senior management team and/or failure to successfully implement succession plans;

our dependence on key personnel to maintain certain customer relationships, and our ability to hire, train, and retain sufficient qualified personnel;

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

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

our contracts may not be adequate to protect us, and we are subject to audit in which we may not pass, and our professional and liability insurance policies coverage may be insufficient to cover a claim;

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- disruptions or a security breach in our IT systems and data and audio communication networks;
- our ability to secure our own customers' electronic and other confidential information, and remain secure during a cyber-security attack;
- our ability to raise capital, maintain or increase as needed our lines of credit with vendors or floor planning facility, obtain debt for our financing transactions, or the effect of those changes on our common stock or its holders;
- our ability to realize our investment in leased equipment;
- our ability to successfully perform due diligence and integrate acquired businesses;
- the possibility of goodwill impairment charges in the future;
- our ability to protect our intellectual property rights and successfully defend any challenges to the validity of our patents or allegations that we are infringing upon any third-party patents, and the costs associated with those actions, and, when appropriate, license required technology; and
- significant changes in accounting standards including changes to the financial reporting of leases which could impact the demand for our leasing services, or misclassification of products and services we sell resulting in the misapplication of revenue recognition policies or inaccurate costs and completion dates for our services, which could affect our estimates.

We cannot be certain that our business strategy will be successful or that we will successfully address these and other challenges, risks, and uncertainties. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see Item 1A, "Risk Factors" and Item 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 Form 10-K), and the opinions expressed in the Gartner Report(s) are subject to change without notice

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PART I

ITEM 1. BUSINESS

GENERAL

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

Our operations are conducted through two business segments. Our technology segment sells information technology (“IT”) 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 IT 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 Software LLC;
- 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 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. is the primary entity that conducts our technology sales and services business. ePlus Software LLC was formed on March 8, 2016 and provides consulting services, and proprietary software for enterprise supply management and document 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 Technology Services, inc. was incorporated on May 17, 2010 to provide professional and management services. We acquired IGXGlobal UK, Limited in December 2015.

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OUR BUSINESS

We are a leading solutions provider that delivers actionable outcomes for organizations by using IT and consulting solutions to drive business agility and innovation. Leveraging our engineering talent, we assess, plan, deliver, and secure solutions comprised of leading technologies and consumption models aligned with our customers' needs. Our expertise and experience enables ePlus to craft optimized solutions that take advantage of the cost, scale and efficiency of private, public and hybrid cloud in an evolving market. We also provide consulting, professional, managed and complete lifecycle management services including flexible financing solutions. We have been in the business of selling, leasing, financing, and managing IT and other assets for more than 28 years.

Our primary focus is to deliver integrated solutions that address our customers' business needs, leveraging the appropriate Cloud, Security and Digital Infrastructure technologies, both on-premise and in the cloud. Our approach is to lead with advisory consulting to understand our customers' needs, design, deploy and manage solutions aligned to their objectives. Underpinning the broader areas of Cloud, Security and Digital Infrastructure are specific skills in orchestration and automation, application modernization, DevOps, data management, data visualization, analytics, network modernization, edge compute and other advanced and emerging technologies. These solutions are comprised of class leading technologies from partners such as Arista Networks, Check Point, Cisco Systems, Citrix, Commvault, Dell EMC, F5 Networks, Gigamon, HP Inc., HPE, Juniper Networks, Lenovo, Microsoft, NetApp, NVIDIA, Oracle, Palo Alto Networks, Pure Storage, Quantum, Splunk, and VMware, among many others. We possess top-level engineering certifications with a broad range of leading IT vendors that enable us to offer multi-vendor IT solutions that are optimized for each of our customers' specific requirements. Our hosted, proprietary software solutions are focused on giving our customers more control over their IT supply chain, by automating and optimizing the procurement and management of their owned, leased, and consumption-based assets.

Our scale and financial resources have enabled us to continue investing in engineering and technology resources to stay current with emerging technology trends. Our expertise in core and emerging technologies, buttressed by our robust portfolio of consulting, professional, and managed services has enabled ePlus to remain a trusted advisor for our customers. In addition, we offer a wide range of consumption options including leasing and financing for technology and other capital assets. We believe our lifecycle approach offering of integrated solutions, services, financing, and our proprietary supply chain software, is unique in the industry. This broad portfolio enables us to deliver a unique customer experience that spans the continuum from fast delivery of competitively priced products, services, subsequent management and upkeep, through to end-of-life disposal services. This approach permits ePlus to deploy ever-more-sophisticated solutions enabling our customers' business outcomes.

Our go-to-market strategy focuses primarily on diverse end-markets for middle market to large enterprises. For the year ended March 31, 2018, the percentage of revenue by customer end market within our technology segment includes technology industry 24%, state and local government, and educational institutions 17%, financial services 15%, telecommunications, media and entertainment 14%, and healthcare 14%. Sales to Apple Inc. represented approximately 12% and 13% of our net sales for the years ended March 31, 2018 and 2017, respectively. No customer accounted for more than 10% of net sales for the year ended March 31, 2016. The majority of our sales were generated within the United States ("U.S."); however, we have the ability to support our customers nationally and internationally including physical locations in the United Kingdom ("U.K."), and India, which was established by acquisition in December 2015 and May 2017, respectively. Our technology segment accounts for 97% of our net sales, and 74% of our operating income, while our financing segment accounts for 3% of our net sales, and 26% of our operating income for the year ended March 31, 2018.

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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 \$1.17 trillion in 2018, and is expected to grow by 3.6% in calendar year 2018 and at an annual rate of approximately 3.3% for 2017 through 2022¹.

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

Multi-Cloud Strategy. Over the past several years, cloud architectures and cloud-enabled frameworks, whether public, private, or hybrid, have become the core foundation of modern IT. Our strategy is to assist our customers in assessing, defining and deploying private and hybrid clouds that align with their business needs. This strategy leverages our strength in deploying private clouds, while also incorporating elements of the public cloud. By assessing their applications, workloads, business requirements, etc., we deploy solutions that leverage the best of all technology platforms and consumption models. For example, we may build a private cloud solution to host mission critical applications, while utilizing a public cloud solution for development, collaboration, or disaster recovery. As the market continues to mature, we will continue to build and acquire skills that align with agile development (DevOps), application refactoring, and analytics. Our cloud strategy is tightly aligned with all of our key strategic initiatives, including security, and digital infrastructure.

Increasing sophistication and incidences of IT security breaches and cyber-attacks. Over the last decade, cyber-attacks have become more sophisticated, more numerous and pervasive, and increasingly difficult to safeguard against. Most experts believe that it isn't a matter of if a cyber-attack will affect an organization; it's a matter of when and how often. We believe our customers are focused on all aspects of cyber security, including intellectual property and data and business processes, as well as compliance with an increasing number of general and industry-specific government regulations. 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.

Disruptive technologies are creating complexity and challenges for customers and vendors. The rapid evolution of disruptive technologies, and the speed by which they impact organizations' IT platforms, 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. Customers are increasingly turning to IT solutions providers such as ePlus to implement complex IT offerings, including software defined infrastructure, cloud computing, converged and hyper-converged infrastructures, big data analytics, and flash storage.

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 shifting 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, but lack the properly trained staff and the ability to hire personnel with high in-demand disciplines such as security and data analytics. At the same time the prevalence of security threats; increased use of cloud computing, software-defined networking, new architectures, and rapid software development frameworks; the proliferation of mobile devices and 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 solutions providers 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.

¹ Gartner, “Market Databook, 1Q18 Update,” Spending on IT by Technology Segment and Country, 2016-2022, April, 2018 (U.S.).

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

COMPETITION

The market for IT solutions is highly competitive, subject to macro-economic cycles and the entry of new competitors, consolidation of existing market participants which can create significantly larger competitors, and is significantly affected by disruptive technologies 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, international, national, and regional resellers and service providers. Some of our competitors are direct marketers with little value add, and sell products as commodities which can place 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, processes, and solution providers. As IT consumption shifts from IT personnel and legacy infrastructure to line-of-business based outcomes using off-premise, on-demand, and cloud solutions, the legacy resale model is shifting from an upfront sale to a recurring revenue model.

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, private-equity asset managers, 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 use 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 internally-provided and outsourced 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 from leading manufacturers and software publishers, 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:

ePlus managed services offer a flexible subscription model to monitor, manage, and maximize business critical technologies—including cloud, security, data center, mobility, and collaboration;

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

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

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; and

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

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® 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, 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.

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Our products and services are targeted at large and the approximately 50,000 middle market companies, state and local governmental organizations and educational institutions in the United States and at international companies through our operations in the U.K. 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 3,200 customers across a wide range of end-markets, including education, financial services, healthcare, media and entertainment, state and local government, technology, and telecommunications.

Differentiated Business Model Serving Entire IT Lifecycle – Procurement, 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 – procurement, 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 Cloud, Security, Digital Infrastructure and other Emerging IT 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 allow us to provide differentiated cloud offerings. We have developed long standing, strategic partnerships with leading cloud systems vendors, including Cisco Systems, Dell EMC, Hewlett Packard Enterprise, NetApp, Microsoft, Amazon Web Services 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 integrated 20 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:

Integrated Data Storage, LLC (“IDS”) an advanced data center solutions provider focused on cloud enablement and managed services, including its proprietary IDS Cloud. The acquisition expands ePlus’ footprint in the Midwest and enhances its sales and engineering capabilities in cloud services, disaster recovery and backup as a service, storage, data center, and professional services.

OneCloud Consulting, Inc. (“OneCloud”). The acquisition, based in Milpitas, California, provides us with additional ability to address customers’ needs in cloud-based solutions and infrastructure, including DevOps, OpenStack, and

other emerging technologies, to our broad customer base.

Consolidated Communications IT services and integration business ("Consolidated IT Services"), providing data center, unified communications, networking, and security solutions, as well as expanded our sales presence in the upper Midwest.

IGX Acquisition Global, LLC , and IGX Support, LLC, including IGX Acquisition's wholly-owned subsidiary, IGXGlobal UK Limited (collectively, "IGX") – Expanded our sales presence in New York and New England, as well as an operating branch in London that serves the U.K. and global customers.

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

We continue to review new acquisition opportunities to expand 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 7.5% on net sales and 9.6% for consolidated gross profit, respectively, from April 1, 2013 to March 31, 2018.

Through our organic expansion and acquisitions, we have increased our employee base by 41.6% from April 1, 2013 to March 31, 2018 while increasing adjusted gross billing per employee by approximately 14.8%. The increase in our employee base has largely been in customer facing roles.

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 Comprehensive IT & Lifecycle Solutions, Including Consulting, Managed and Professional Services, and Financing

We seek to become the primary provider of IT solutions for each of our customers, whether on-premise, cloud, or managed services-based. We strive to 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 have a large number of experienced pre-sales engineers who are able to engage with customers about the most advanced technologies. 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, and are supported by experienced and professional inside sales representatives. We believe that our bundled offerings are an important differentiating factor from our competitors.

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.

During the last fiscal year, we have expanded our managed services offerings to include support for certain Palo Alto products, expanded our unified communications offerings to include call recording and support of Software Defined Networking with LiveAction performance analytics. We broadened our partner network to include additional security operations services, managed desktop services, and patch management.

Build Our Geographic Footprint

We intend to increase our direct sales and go-to-market capabilities in each of our geographic areas. We actively seek to acquire new account relationships through face-to-face field sales, electronic commerce, leveraging our partnerships with vendors, and targeted demand-generation activities to increase awareness of our solutions. We also seek to broaden our customer base, expand our geographic reach, and improve our technology and professional services delivery capabilities.

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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, make strategic acquisitions that expand our customer facing talent, 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, 2018, as part of our expansion strategy, our customer facing sales and professional services team grew from 893 to 965.

Improve Operational Efficiencies

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

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. We seek to acquire new account relationships through face-to-face field sales, leveraging our partnerships with manufacturers and targeted direct marketing to increase awareness of our solutions. We target commercial enterprises, primarily middle market companies with annual revenues between \$20 million and \$2.5 billion and large companies, as well as larger state and local governments and educational institutions. We currently have over 3,200 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 and acquisitions. We market to different areas within a customer's organization, including business units as well as the IT department, or finance department, depending on the solutions.

As of March 31, 2018, our sales force consisted of 499 sales, marketing and sales support personnel organized regionally in 39 office locations throughout the United States, United Kingdom, India, and Singapore.

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, 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 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.

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Our trademarks in the United States include e+ ®, 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.

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, Tech Data, Westcon-Comstor, and Synnex Corporation are our largest distributors. 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, 2018, our five largest distributors accounted for 33% of our purchases related to our technology segment net sales.

Sales of products manufactured by Cisco Systems, Hewlett Packard Enterprise and HP, Inc. (collectively, "Hewlett Packard companies"), and NetApp, whether purchased directly from these vendors or through distributors, represented 43%, 6%, and 4%, respectively, of our technology segment net sales for the year ended March 31, 2018. 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 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 security interests when practicable; 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 retain certain procurement risks. Our financing arrangements with our customers are generally fixed-rate.

Credit Risk Loss Experience: During the fiscal year ended March 31, 2018, we increased our reserves for credit losses by \$462 thousand, and incurred actual credit losses of \$3,190 thousand. During the fiscal year ended March 31, 2017, we increased our reserves for credit losses by \$277 thousand, and incurred actual credit losses of \$78 thousand. 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 \$30 thousand in recoveries.

BACKLOG

We rely on our vendors or distributors to fulfill a large majority of our shipments to our customers. As of March 31, 2018, we recorded customer commitments to purchase products or services that remain open until either executed or canceled (“open orders”) of \$148.2 million and deferred revenue of \$51.8 million. As of March 31, 2017, we had open orders of \$184.1 million and deferred revenues of \$70.0 million. We expect that the majority of open orders as of March 31, 2018 will be recognized within ninety days of that date. We also expect that 75% of the deferred revenues as of March 31, 2018 will be recognized within the next twelve months.

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EMPLOYEES

As of March 31, 2018, we employed 1,260 employees who operated through 39 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,		
	2018	2017	Change
Sales and Marketing	499	493	6
Professional Services	466	400	66
Administration	207	200	7
Software Development and Internal IT	80	73	7
Executive Management	8	7	1
	1,260	1,173	87

U.S. SECURITIES AND EXCHANGE COMMISSION REPORTS

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

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EXECUTIVE OFFICERS

The following table sets forth the name, age and position of each person who was an executive officer of ePlus on March 31, 2018. 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	74	Executive Chairman
Mark P. Marron	56	Chief Executive Officer and President
Elaine D. Marion	50	Chief Financial Officer

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

Phillip Norton - Executive Chairman

Phillip G. Norton joined the company in March 1993 as Chairman of the Board and Chief Executive Officer, and became its Executive Chairman in 2016. Mr. Norton focuses on corporate strategy, acquisitions, and transactions within the financing segment as well as engages with customers. An entrepreneur who has successfully managed large companies, he started Systems Leasing Corporation in 1978 and sold it to PacifiCorp in 1985. At the time of his departure in 1990, PacifiCorp held assets of more than \$800 million and was one of the largest third-party lessors in the country. Mr. Norton is a 1966 graduate of the U.S. Naval Academy.

Mark Marron - Chief Executive Officer and President, ePlus inc.

Mark P. Marron became the Chief Executive Officer and President of ePlus inc. on August 1, 2016. He began his career at ePlus in 2005 as Senior Vice President of Sales and became COO in 2010. A 30-year industry veteran, he was formerly with NetIQ where he held the position of Senior Vice President of Worldwide Sales and Services. Prior to joining NetIQ, Mr. Marron served as General Manager of Worldwide Channel Sales for Computer Associates International Inc., a provider of software and services that enables organizations to manage their IT environments. Mr. Marron has extensive experience throughout North America, Europe, the Middle East, and Africa and holds a Bachelor of Science degree in Computer Science from Montclair State University.

Elaine Marion - Chief Financial Officer

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 currently serves on the Advisory Board of the School of Business at the University of Mary Washington and a member of the George Mason University School of Business Dean's Advisory Council. 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.

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ITEM 1A. RISK FACTORS

General economic weakness may harm our operating results and financial condition.

Our results of operations are largely dependent upon the state of the economy. Global economic weakness and uncertainty may result in decreased sales, gross margin, and earnings or growth rates from our United States based customers and also from customers outside the U.S. For example, there continues to be substantial uncertainty regarding the economic impact of the Referendum on the United Kingdom's Membership of the European Union ("EU") (referred to as "Brexit"). Potential adverse consequences of Brexit such as global market uncertainty, volatility in currency exchange rates, greater restrictions on imports and exports between U.K. and EU countries and increased regulatory complexities could have a negative impact on our business, financial condition, and results of operations. In addition, material changes in trade agreements between the United States and other countries may, for example, affect our ability to purchase product, our product pricing and availability of product. 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 volume 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 one or more of our largest customers, 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 years ended March 31, 2018 and 2017 sales to a single large technology customer was approximately 12% and 13% of net sales, respectively. For the year ended March 31, 2016, no single customer's sales were greater than 10% of net sales.

Changes in the IT industry, customers' usage or procurement of IT, and/or rapid changes in product standards may result in reduced demand for the IT hardware and software solutions 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, methods of distribution, and the nature of how IT is consumed and procured. 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, IaaS, 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 strategy to provide certain products and services, and it may fail due to competition or changes in the industry or improper focus or selection of the products and services we decide to offer. If we fail to react in a timely manner to such changes, our results of operations may be 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 depend on continued innovations in hardware, software and services offerings by our vendors, as well as 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 depend on innovations in hardware, software and services offerings by our vendors, as well as the acceptance of those innovations by our customers for the offerings we sell. A decrease in the rate of innovation by our vendors, or the lack of acceptance of innovations by our customers, or a shift by customers to technology platforms that we do not sell, could have an adverse effect on our business, results of operations or cash flows.

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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 depend 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 are not authorized to offer in one or more customer channels. In addition, our success depends 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, or we partner with a vendor that is not in demand or demand significantly decreases, 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 our technology segment depends on a small number of key vendors including Cisco Systems, Hewlett Packard companies, and NetApp. Products manufactured by Cisco Systems represented approximately 43%, 47% and 49% of our technology segment net sales for the years ended March 31, 2018, 2017 and 2016, respectively. Products manufactured by Hewlett Packard companies represented approximately 6%, 6% and 7% of our technology segment net sales for the years ended March 31, 2018, 2017 and 2016, respectively. NetApp products represented approximately 4%, 5% and 5% of our technology segment net sales for the years ended March 31, 2018, 2017, and 2016, respectively.

Our industry frequently experiences periods of product shortages from our vendors as a result of our vendors' difficulties in projecting demand for certain products we sell; 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 depend upon the supply of products available from our vendors 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.

The loss of a key vendor or changes in its policies could adversely impact our financial results. Violations 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 trade credit lines or the favorable terms 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.

We may experience a reduction in incentives offered to us, and earned by us, from 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 adversely affects 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

do not comply with the terms of these programs, or do not sell certain products that earn the incentive, 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 vendors, including Cisco Systems and Hewlett Packard Enterprise, could have a material adverse effect on our business, results of operations and financial condition. If we are unable to react timely to any fundamental changes in the programs of vendors, including the elimination of funding for some of the activities for which we have been compensated in the past, such changes could have a material adverse effect on our business, results of operations and financial condition.

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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, configuration services, and other services for our customers. If these third-parties do not perform these in accordance with the terms of our agreement and of a professional standard customary for the services, or if they cause disruption of or security weaknesses in our customers' businesses, legal claims, or costs to our organization could result, including monetary damages paid to our customers, an adverse effect on our customer relationships, our brand, and our reputation, and our results of operations or cash flows could be affected.

We rely on independent shipping companies to deliver 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 that may result from economic, supply-chain, geopolitical, or other disruptions.

We may not have designed or maintained our IT systems to support our business.

We depend heavily upon the accuracy and reliability of our information, telecommunication and other systems including the operation of redundant systems if and when there are failures in our primary systems, which are used for sales, distribution, marketing, purchasing, inventory management, order processing, customer service and general accounting functions. We must continually maintain and improve our systems. The protections we have in place address a variety of threats to our information technology systems, both internal and external and human error. Poor security practices or design of our IT systems or IT systems from third-parties which we utilize, or third-party service providers' failure to provide adequate services could result in the disclosure of sensitive or confidential information or 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, our reputation, financial condition, cash flows, or results of operations.

Our managed services business requires us to monitor our customers' devices on their network in varying levels of service. If we have not designed our IT systems to provide this service accurately or if there is a security breach in our IT system or the customers' systems, we may be liable for claims.

We rely on the competency of our internal IT personnel. Our failure to hire, train and supervise competent IT personnel to secure our data, design redundant systems, or design and maintain our technology systems including our data and voice networks, and applications, could significantly interrupt our business causing a negative impact on our results.

Breaches of data security and the failure to protect our information technology systems from cybersecurity threats could adversely impact our business.

Our business involves the storage and transmission of proprietary information and sensitive or confidential data, including personal information of our employees, customers and others. In addition, we operate data centers for our customers that host their technology infrastructure and may store and transmit both business-critical data and confidential information. In connection with our services business, some of our employees also have access to our customers' confidential data and other information. We have privacy and data security policies in place that are designed to prevent security breaches; however, as newer technologies evolve, and the portfolio of the service providers we share confidential information with grows, we could be exposed to increased risk of breaches in security and other illegal or fraudulent acts, including cyberattacks. The evolving nature of such threats, in light of new and sophisticated methods used by criminals and cyberterrorists, including computer viruses, malware, phishing,

misrepresentation, social engineering and forgery, are making it increasingly challenging to anticipate and adequately mitigate these risks.

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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 privacy, 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 if the underlying transaction turns out poorly for the lenders. We are subject to such claims and the cost of defending such claims due to the nature of our business.

We also are subject to audits by various vendor partners and customers, including government agencies, relating to purchases and sales under various contracts. In addition, we are subject to indemnification claims under various contracts.

If we fail to perform sufficient due diligence prior to completing an acquisition, or entering into a strategic alliance, or fail to integrate a completed acquisition our earnings may be 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, may divert management's attention from other business concerns, 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 fail to perform adequate due diligence and acquire entities with unknown liabilities, fraud, cultural or business environment issues, or that may not have adequate internal controls as may be required by law.

If we acquire a company that does not fit culturally, strategically, or in some other fashion, the acquisition may not produce the expected results or may negatively affect our reputation, which may negatively affect our business, results of operations, or cash flows.

In addition, our financial results could be adversely affected by financial adjustments required by generally accepted accounting principles in the United States of America ("GAAP") in connection with these types of transactions where significant goodwill or intangible assets are recorded. To the extent the value of goodwill or identifiable intangible assets with indefinite lives becomes impaired; we may be required to incur material charges relating to the impairment of those assets

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, 2018 and 2017, we had reserves for credit losses of \$2.7 million and \$5.4 million, respectively. Our reserve for credit losses as of March 31, 2017 included a specific reserve of \$3.2 million due to a customer that filed for bankruptcy in May 2012, which was written-off during our fiscal year 2018.

We may be liable for misappropriation of our customers' or employees' information.

Third-parties, such as hackers, could circumvent or sabotage the security practices and products used in our product and service offerings, and/or the security practices or products used in our internal IT systems, which could result in disclosure of sensitive or personal information, unauthorized procurement, or 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.

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If third-parties or our employees are able to penetrate our network security or otherwise misappropriate our customers' information or employees' personal information, or other information for which our customers may be responsible and for which we agree to be responsible in connection with service contracts into which 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 access to devices on our network; unauthorized access to our customers' networks, applications, devices, or software; unauthorized purchases with credit card information; and identity theft or other similar fraud-related claims. This liability could also include claims for other misuses of personal information. 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 when new laws or regulations regarding the use of information are enacted, 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 the security practices we use to protect sensitive customer transaction information and employee information. A party who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. Further, third-parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords, or other information or otherwise compromise the security of our internal networks and/or our customers' information. Since techniques used to obtain unauthorized access change frequently and the size and severity of security breaches are increasing, we may be unable to implement adequate preventative measures or stop security breaches while they are occurring.

We may be required to expend significant capital and other resources to protect against 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. There can be no assurance that the limitations of liability in our contracts would be enforceable or adequate, or would otherwise protect us from any such liabilities or damages with respect to any particular claim. We also cannot be sure that our existing insurance coverage for errors and omissions will continue to be available on acceptable terms or in sufficient amounts to cover one or more large claims, or that our insurers will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceeds our available insurance coverage, or changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have an adverse effect on our business, financial condition, and results of operations.

We may not be able to hire and/or retain personnel that we need.

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 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. Frequently, our competitors require their employees to agree to non-compete and non-solicitation agreements as part of their employment. This makes it more difficult for us to hire, and increases 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.

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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, and are subject to audits. 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.

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/or 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 are at the forefront 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 face substantial competition from other companies.

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 based principally on price and may have lower costs or accept lower selling prices than we do and, therefore, our gross margins may not be maintainable. Our competitors may offer better or different products and services than we offer. 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 or regional financial institutions such as banks with substantially lower cost of funds. Our competition may lower lease rates to increase market share.

We rely on inventory and accounts receivable financing arrangements for working capital and our accounts payable processing.

The loss of the technology segment’s credit facility could have a material adverse effect on our future results as we rely on this facility and its components for daily working capital and the operational function of our accounts payable process. Our credit agreement contains various covenants that must be met each quarter. There can be no assurance

that we will continue to meet those covenants and failure to do so may limit availability of, or cause us to lose, such financing. There can be no assurance that such financing will continue to be available to us in the future on acceptable terms.

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Failure to comply with new laws or changes to existing laws 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.

Changes in accounting rules, or the misapplication of current accounting rules, may adversely affect our future financial results.

We prepare our financial statements in conformity with accounting principles generally accepted in the U.S. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, the Public Company Accounting Oversight Board, the SEC, the American Institute of Certified Public Accountants (“AICPA”) and various other bodies formed to interpret and create appropriate accounting 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.

We are required to determine if we are the principal or agent in all transactions with our customers. The voluminous number of products and services we sell, and the manner in which they are bundled, are technologically complex. Mischaracterization of these products and services could result in misapplication of revenue recognition polices. We use estimates where necessary, such as allowance for doubtful accounts and the cost to perform professional and managed services, which require judgment and are based on best available information. If we are unable to accurately estimate the cost of these services or the time-line for completion of contracts, the profitability of our contracts may be materially and adversely affected.

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 offerings, damage our business reputation, harm our ability to attract new customers, and potentially expose us to 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 outside of 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 the residual value of the equipment we lease, predominantly at the end of the term of a lease, as well as during the life of the 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, excessive or unusual wear and tear on 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, rules regarding relicensing of software to operate

the equipment, 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.

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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.

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 sales 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.

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 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 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, 2018, we had goodwill and other intangible assets of \$76.6 million and \$26.3 million, respectively.

We face risks of claims from third-parties for intellectual property infringement that could harm our business.

We may be subject to claims that 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 infringement claims against ourselves and our customers. 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.

Our results of operations are subject to fluctuations in foreign currency.

Our subsidiaries IGXGlobal UK Limited. and IGX Capital UK, Ltd. were formed and operate in the U.K. We also have an Indian subsidiary, Cloud Uno Ltd, which operates in India and a Singapore subsidiary, Cloud Uno, which operates in Singapore. As result of these foreign presences, we have additional exposure to fluctuations in foreign currency rates resulting primarily from the translation exposure associated with the preparation of our consolidated financial statements. We also have a Canadian subsidiary, ePlus Canada Company, which owns property in Canada.

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 U.K. 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.

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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, engage in more extensive promotional marketing and advertising activities, offer more attractive terms to customers, and adopt more aggressive pricing and credit 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.

If our proprietary software products contain defects, our business could suffer.

Products as complex as those used to provide our electronic commerce solutions or cloud automation solutions, such as scripts, often contain unknown and undetected errors, performance problems, or use open source code. 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 certain errors we consider to be minor may be serious to our customers. Our software products, or automation solutions, may be circumvented or sabotaged by third-parties such as hackers, which could result in the disclosure of sensitive information or 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 proprietary software solutions because 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, security breaches, and 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. 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.

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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 or such discontinuance may be viewed negatively by the market. As a result of one or more of these factors, the trading price of our common stock could decline.

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.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of March 31, 2018, we operated from 39 office locations, and a number of home offices or customer sites. Our total leased square footage as of March 31, 2018, was approximately 280 thousand square feet for which we incurred rent expense of approximately \$429 thousand per month. Some of our subsidiaries operate in shared office space to improve sales, marketing and cost efficiency. Five of our office locations include dedicated or shared space configuration centers; which include two locations in California, and locations in 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, 2020, and contains a renewal option to extend the lease through December 31, 2022.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may be subject to legal proceedings that arise in the ordinary course of business. Legal proceedings which may arise in the ordinary course of business include preference payment claims asserted in customer bankruptcy proceedings, tax audits, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, claims of alleged non-compliance with contract provisions, employment-related claims, claims by competitors, vendors or customers, claims related to alleged violations of laws and regulations, and claims relating to alleged security or privacy breaches. We attempt to ameliorate the effect of potential litigation through insurance coverage and contractual protections such as rights to indemnifications and limitations of liability. Additionally, we proactively seek to recover funds to which we may be entitled. From time to time, we are successful in obtaining recoveries by filing a claim in class action suits, however, we have limited insight into the timing or amount of those recoveries.

We provide for costs relating to contingencies when a loss is probable and the amount is reasonably determinable. In the opinion of management, there was not at least a reasonable possibility that the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies for asserted legal and other claims. However, the outcome of legal proceedings and claims brought against us is subject to significant uncertainty. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

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PART II

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

MARKET INFORMATION

At March 31, 2018, 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, 2018, and 2017. Per share amounts for the dates presented in the table have been retroactively restated to reflect the stock split. See Note 1 "Organization and Summary of Significant Accounting Policies" and Note 10 "Stockholders' Equity" in the consolidated financial statements included elsewhere in this report for additional information on the stock split.

Quarter Ended	High	Low
Fiscal Year 2018		
March 31, 2018	\$82.10	\$67.65
December 31, 2017	\$97.75	\$72.28
September 30, 2017	\$93.95	\$72.38
June 30, 2017	\$81.30	\$63.76
Fiscal Year 2017		
March 31, 2017	\$70.50	\$54.28
December 31, 2016	\$59.67	\$44.20
September 30, 2016	\$47.73	\$39.09
June 30, 2016	\$46.54	\$36.18

On May 22, 2018, the closing price of our common stock was \$90.45 per share. On May 22, 2018, there were 144 stockholders of record of our common stock. We believe there are approximately 8,900 beneficial holders of our common stock.

DIVIDEND POLICIES AND RESTRICTIONS

We did not pay any cash dividends on our common stock during the fiscal years ended March 31, 2018 and 2017. Holders of our common stock are entitled to dividends if and when declared by our Board of Directors ("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.

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PURCHASES OF OUR COMMON STOCK

The following table provides information regarding our purchases of ePlus inc. common stock during the fiscal year ended March 31, 2018. The numbers of shares and price per share for the prior periods presented in the table have been retroactively restated to reflect the stock split. See Note 1 “Organization and Summary of Significant Accounting Policies” and Note 10 “Stockholders’ Equity” in the consolidated financial statements included elsewhere in this report for additional information on the stock split.

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs	
April 1, 2017 through April 30, 2017	-	\$ -	-	1,000,000	(2)
May 1, 2017 through May 31, 2017	-	\$ -	-	1,000,000	(3)
June 1, 2017 through June 30, 2017	54,546	\$ 75.72	-	1,000,000	(4)
July 1, 2017 through July 31, 2017	3,179	\$ 79.50	-	1,000,000	(5)
August 1, 2017 through August 18, 2017	-	\$ -	-	1,000,000	(6)
August 19, 2017 through August 31, 2017	-	\$ -	-	500,000	(7)
September 1, 2017 through September 30, 2017	-	\$ -	-	500,000	(8)
October 1, 2017 through October 31, 2017	-	\$ -	-	500,000	(9)
November 1, 2017 through November 30, 2017	56,707	\$ 78.21	56,707	443,293	(10)
December 1, 2017 through December 31, 2017	68,898	\$ 77.61	68,898	374,395	(11)
January 1, 2018 through January 31, 2018	96,569	\$ 77.68	96,569	277,826	(12)
February 1, 2018 through February 28, 2018	94,065	\$ 75.58	94,065	183,761	(13)
March 1, 2018 through March 31, 2018	93,600	\$ 77.34	93,600	90,161	(14)

All shares acquired were in open-market purchases, except for 54,546 and 3,179 shares, which were repurchased (1) in June and July 2017, respectively, to satisfy tax withholding obligations that arose due to the vesting of shares of restricted stock.

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

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

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

The share purchase authorization in place for the month ended July 31, 2017 had purchase limitations on the (5) number of shares of up to 1,000,000 shares. As of July 31, 2017, the remaining authorized shares to be purchased were 1,000,000.

(6) As of August 18, 2017 the authorization under the then existing share purchase plan expired.

On August 15, 2017, the board of directors authorized the company to repurchase up to 500,000 shares of our (7) outstanding common stock commencing on August 19, 2017 through August 18, 2018. As of August 31, 2017, the remaining authorized shares to be purchased were 500,000.

The share purchase authorization in place for the month ended September 30, 2017 had purchase limitations on (8) the number of shares of up to 500,000 shares. As of September 30, 2017, the remaining authorized shares to be purchased were 500,000.

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The share purchase authorization in place for the month ended October 31, 2017 had purchase limitations on the (9) number of shares of up to 500,000 shares. As of October 31, 2017, the remaining authorized shares to be purchased were 500,000.

The share purchase authorization in place for the month ended November 30, 2017 had purchase limitations on (10) the number of shares of up to 500,000 shares. As of November 30, 2017, the remaining authorized shares to be purchased were 443,293.

The share purchase authorization in place for the month ended December 31, 2017 had purchase limitations on (11) the number of shares of up to 500,000 shares. As of December 31, 2017, the remaining authorized shares to be purchased were 374,395.

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The share purchase authorization in place for the month ended January 31, 2018 had purchase limitations on the (12)number of shares of up to 500,000 shares. As of January 31, 2018, the remaining authorized shares to be purchased were 277,826.

The share purchase authorization in place for the month ended February 28, 2018 had purchase limitations on the (13)number of shares of up to 500,000 shares. As of February 28, 2018, the remaining authorized shares to be purchased were 183,761.

The share purchase authorization in place for the month ended March 31, 2018 had purchase limitations on the (14)number of shares of up to 500,000 shares. As of March 31, 2018, the remaining authorized shares to be purchased were 90,161.

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.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and with the consolidated financial statements and related notes, which are included elsewhere in this Form 10-K. The selected consolidated statement of operations data for the years ended March 31, 2018, 2017 and 2016 and the selected consolidated balance sheet data as of March 31, 2017 and 2016 presented below was derived from our audited consolidated financial statements, which are included elsewhere herein. On March 31, 2017, we completed a two-for-one stock split in the form of a stock dividend. Per share amounts have been retroactively adjusted for this stock split.

The selected financial data as of and for the years ended March 31, 2015 and 2014 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,				
	2018	2017	2016	2015	2014
	(in thousands, except per share data)				
Net sales	\$ 1,410,997	\$ 1,329,389	\$ 1,204,199	\$ 1,143,282	\$ 1,057,536
Cost of sales	1,087,515	1,029,630	942,142	898,735	840,623
Gross profit	323,482	299,759	262,057	244,547	216,913
Operating expense	239,243	214,027	186,306	173,837	156,815
Operating income	84,239	85,732	75,751	70,710	60,098
Other income	(348)	380	-	7,603	-
Earnings before provision for income taxes	83,891	86,112	75,751	78,313	60,098
Provision for income taxes	28,769	35,556	31,004	32,473	24,825
Net earnings	\$55,122	\$50,556	\$44,747	\$45,840	\$35,273
Net earnings per common share - basic	\$4.00	\$3.65	\$3.08	\$3.13	\$2.21
Net earnings per common share - diluted	\$3.95	\$3.60	\$3.05	\$3.10	\$2.19

Balance Sheet Data:	For the years ended March 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Cash and cash equivalents	\$ 118,198	\$ 109,760	\$ 94,766	\$ 76,175	\$ 80,179
Accounts receivable—net	296,688	291,016	276,399	249,803	243,216
Total financing receivables and operating leases—net	138,447	123,539	132,354	143,900	143,739
Total assets	\$758,704	\$741,720	\$616,680	\$568,275	\$550,103
Total non-recourse and recourse notes payable	\$52,278	\$37,424	\$47,422	\$56,564	\$68,888
Total liabilities	\$386,101	\$395,802	\$297,802	\$289,013	\$283,720
Total stockholders' equity	\$372,603	\$345,918	\$318,878	\$279,262	\$266,383
Weighted average common shares outstanding—basic	13,790	13,867	14,513	14,636	15,853
Weighted average common shares outstanding—diluted	13,967	14,028	14,688	14,786	15,999

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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, non-GAAP net earnings, 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.

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

	For the years ended March 31,					
	2018	2017	2016	2015	2014	
Sales of products and services	\$ 1,364,145	\$ 1,290,228	\$ 1,163,337	\$ 1,100,884	\$ 1,013,374	
Adjusted gross billings of product and services (1)	\$ 1,891,065	\$ 1,775,708	\$ 1,556,463	\$ 1,435,039	\$ 1,276,133	
Gross margin	22.9	% 22.5	% 21.8	% 21.4	% 20.5	%
Gross margin, product and services	20.7	% 20.5	% 19.9	% 19.4	% 18.3	%
Operating income margin	6.0	% 6.4	% 6.3	% 6.2	% 5.7	%
Net earnings	\$ 55,122	\$ 50,556	\$ 44,747	\$ 45,840	\$ 35,273	
Net earnings margin	3.9	% 3.8	% 3.7	% 4.0	% 3.3	%
Net earnings per common share - diluted	\$ 3.95	\$ 3.60	\$ 3.05	\$ 3.10	\$ 2.19	
Non-GAAP: Net earnings (2)	\$ 61,458	\$ 59,378	\$ 53,065	\$ 47,677	\$ 40,692	
Non-GAAP: Net earnings per common share - diluted (2)	\$ 4.40	\$ 4.23	\$ 3.61	\$ 3.22	\$ 2.52	
Adjusted EBITDA (3)	\$ 102,774	\$ 99,287	\$ 87,691	\$ 79,514	\$ 67,267	
Adjusted EBITDA margin (3)	7.3	% 7.5	% 7.3	% 7.0	% 6.4	%
Purchases of property and equipment used internally	\$ 5,353	\$ 3,356	\$ 2,442	\$ 3,610	\$ 4,238	
Purchases of equipment under operating leases	2,237	6,202	12,026	8,163	5,714	
Total capital expenditures	\$ 7,590	\$ 9,558	\$ 14,468	\$ 11,773	\$ 9,952	

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 financial measures 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.

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	For the years ended March 31,				
	2018	2017	2016	2015	2014
Sales of products and services	\$1,364,145	\$1,290,228	\$1,163,337	\$1,100,884	\$1,013,374
Costs incurred related to sales of third-party software assurance, maintenance and services	526,920	485,480	\$393,126	\$334,155	\$262,759
Adjusted gross billings of product and services	\$1,891,065	\$1,775,708	\$1,556,463	\$1,435,039	\$1,276,133

(2) Non-GAAP net earnings and non-GAAP net earnings per common share – diluted is based on net earnings calculated in accordance with GAAP, adjusted to exclude other income (expense), share based compensation, and acquisition and integration expenses, and the related tax effects, the tax (benefit) expense due to the re-measurement of deferred tax assets and liabilities at the new U.S. tax rates, and an adjustment to our tax expense in the prior year assuming a 31.5% effective annual income tax rate for U.S. operations. The presentation of non-GAAP net earnings and non-GAAP net earnings per common share – diluted have been changed from prior period presentations to include adjustments for expenses related to acquisitions such as legal, accounting, tax, and adjustments to the fair value of contingent purchase price consideration as well as stock compensation.

We use non-GAAP net earnings per common share as a supplemental measure of our performance to gain insight into our operating performance. We believe that the exclusion of 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 business and operating results by excluding items that management believes are not reflective of our underlying operating performance. Accordingly, we believe that non-GAAP net earnings per common share provide useful information to investors and others in understanding and evaluating our operating results. However, our use of non-GAAP information 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 similar non-GAAP net earnings and non-GAAP net earnings per common share or similarly titled measures differently, which may reduce their usefulness as comparative measures.

	For the years ended March 31,				
	2018	2017	2016	2015	2014
GAAP: Earnings before tax	\$83,891	\$86,112	\$75,751	\$78,313	\$60,098
Share based compensation	6,464	6,025	5,711	4,585	3,968
Acquisition and integration expense	2,150	278	681	(114)	409
Acquisition related amortization expense	5,978	4,000	2,917	1,888	1,110
Other (income) and expense	348	(380)	-	(7,603)	-
Non-GAAP: Earnings before provision for income taxes	98,831	96,035	85,060	77,069	65,585
GAAP: Provision for income taxes	28,769	35,556	31,004	32,473	24,825
Share based compensation	2,456	2,284	2,148	1,749	1,506
Acquisition and integration expense	815	105	256	(43)	155
Acquisition related amortization expense	2,103	1,255	1,097	720	417
Other (income) expense	132	(144)	-	(2,899)	-
Remeasurement of deferred taxes	1,654	-	-	-	-
Tax benefit on restricted stock	1,444	514	-	-	-
Adjustment to U.S. Federal Income Tax rate to 31.5%	-	(2,913)	(2,510)	(2,608)	(2,010)
Non-GAAP: Provision for income taxes	37,373	36,657	31,995	29,392	24,893
Non-GAAP: Net earnings	\$61,458	\$59,378	\$53,065	\$47,677	\$40,692
GAAP: Net earnings per common share - diluted	\$3.95	\$3.60	\$3.05	\$3.10	\$2.19
Non-GAAP: Net earnings per common share - diluted	\$4.40	\$4.23	\$3.61	\$3.22	\$2.52

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We define Adjusted EBITDA as net earnings calculated in accordance with GAAP, adjusted for the following: interest expense, depreciation and amortization, share based compensation, acquisition and integration expenses, provision for income taxes, and other income. Segment Adjusted EBITDA is defined as operating income calculated in accordance with GAAP, adjusted for interest expense, share based compensation, acquisition and integration expenses, and depreciation and amortization. We consider the interest on notes payable from our financing segment and depreciation expense presented within cost of sales, which includes depreciation on assets (3) 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. The presentation of Adjusted EBITDA has been changed from prior period presentations to include adjustments for expenses related to acquisitions such as legal, accounting, tax, and adjustments to the fair value of contingent purchase price consideration as well as stock compensation.

We use Adjusted EBITDA as a supplemental measure of our performance to gain insight into our operating performance. We believe that the exclusion of other income in calculating Adjusted EBITDA and Adjusted EBITDA margin provides management and investors a useful measure for period-to-period comparisons of our business and operating results by excluding items that management believes are not reflective of our underlying operating performance. Accordingly, we believe that Adjusted EBITDA and Adjusted EBITDA margin provide useful information to investors and others in understanding and evaluating our operating results. However, our use of Adjusted EBITDA and Adjusted EBITDA margin as analytical tools has limitations, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under 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,				
<u>Consolidated</u>	2018	2017	2016	2015	2014
Net earnings	\$55,122	\$50,556	\$44,747	\$45,840	\$35,273
Provision for income taxes	28,769	35,556	31,004	32,473	24,825
Depreciation and amortization	9,921	7,252	5,548	4,333	2,792
Share based compensation	6,464	6,025	5,711	4,585	3,968
Acquisition and integration expense	2,150	278	681	(114)	409
Other income	348	(380)	-	(7,603)	-
Adjusted EBITDA	\$102,774	\$99,287	\$87,691	\$79,514	\$67,267
<u>Technology Segment</u>					
Operating income	\$62,389	\$68,912	\$63,689	\$60,958	\$51,311
Depreciation and amortization	9,918	7,243	5,532	4,310	2,769
Share based compensation	6,098	5,684	5,321	4,155	3,486
Acquisition and integration expense	2,150	278	681	(114)	409
Segment Adjusted EBITDA	\$80,555	\$82,117	\$75,223	\$69,309	\$57,975
<u>Financing Segment</u>					
Operating income	\$21,850	\$16,820	\$12,062	\$9,752	\$8,787
Depreciation and amortization	3	9	16	23	23
Share based compensation	366	341	390	430	482
Segment Adjusted EBITDA	\$22,219	\$17,170	\$12,468	\$10,205	\$9,292

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

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

EXECUTIVE OVERVIEW

Business Description

ePlus and its consolidated subsidiaries provide leading 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 and emerging 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 of over 1,000 vendors, but primarily of approximately 100 vendors, including Check Point, Cisco Systems, Dell EMC, FireEye, F5 Networks, Gigamon, Hewlett Packard Enterprise, Juniper, McAfee, NetApp, Nimble, Oracle, Palo Alto Networks, Pure Storage, Splunk, 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, 2018, net sales increased 6.1% to \$1,411.1 million, or an increase of \$81.6 million over the prior fiscal year. We had a 6.5% increase in Adjusted gross billings of products and services of \$1,891.1 million for the year ended March 31, 2018, compared to \$1,775.7 million last fiscal year. 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 margin increased 40 basis points to 22.9% for the year ended March 31, 2018, compared to 22.5% for the year ended March 31, 2017. The increase in gross margin 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, sales of third-party maintenance agreements on core elements of our customers' IT environment, and expanded gross profit and margins of our financing segment.

Operating income decreased \$1.5 million, or 1.7%, to \$84.2 million and operating margin decreased by 40 basis points to 6.0%, as compared to the year ended March 31, 2017. Net earnings for the year ended March 31, 2018 increased 9% to \$55.1 million, as compared to the year ended March 31, 2017. Net earnings for the year ended March

31, 2017 included other non-operating income of \$0.4 million from a payment received related to the dynamic random access memory (DRAM) class action lawsuit, which claimed that manufacturers fixed the price of DRAM, a common component in consumer electronics.

Adjusted EBITDA for the year ended March 31, 2018 was \$102.8 million, \$3.5 million higher than the prior year. Operating income was \$84.2 million, or \$1.5 million lower than the prior year. Our effective tax rate for the current fiscal year was 34.3%, lower than the prior year rate of 41.3%, due to the change in the federal statutory rate from 35% to 21% resulting from legislation that was enacted on December 22, 2017.

Net earnings for the year ended March 31, 2018 was \$55.1 million, or \$3.95 per diluted share, compared with the prior year of \$3.60 per diluted share. Non-GAAP diluted earnings per share was \$4.40 for fiscal year 2018, an increase of 4.0% from the prior year of \$4.23 per diluted share.

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Cash and cash equivalents increased \$8.4 million, or 7.7%, to \$118.2 million at March 31, 2018 compared to March 31, 2017. The increase is primarily the result of cash flows from operations and improvements in our cash conversion cycle, partially offset by investments in our financing portfolio, working capital required for the growth in our technology segment, \$29.8 million paid in cash at closing of our acquisition of Integrated Data Storage, LLC (“IDS”) and \$7.9 million paid in cash at closing for our acquisition of OneCloud Consulting, Inc. (“OneCloud”), and the repurchase of 467,564 shares of our common stock for \$36.0 million under our stock repurchase authorization in the year ended March 31, 2018. Our cash on hand, funds generated from operations, amounts available under our credit facility and the possible monetization of our investment portfolio have provided 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 the United Kingdom, Canada and Iceland. The financing segment derives revenue from leasing IT and medical equipment and the disposition of that equipment at the end of the lease. The financing segment also derives revenues from the financing of third-party software licenses, software assurance, maintenance and other services.

Financing revenue generally falls into the following three categories:

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

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, decision to sell financial assets, 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.

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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

Our consolidated financial statements have been prepared in accordance with U.S. GAAP. Our significant accounting policies are described in Note 1 of the Notes to the Consolidated Financial Statements under "Organization and Summary of Significant Accounting Policies." The accounting policies described below are significantly affected by critical accounting estimates. Such accounting policies require significant judgments, assumptions, and estimates, and actual results could differ materially from the amounts reported based on these policies.

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 Accounting Standards Codification ("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.

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.

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We account for the transfer of financial assets as sales or secured borrowings in accordance with Codification Topic Transfers and Servicing. 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. We test goodwill for impairment on an annual basis, as of October 1, 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. Goodwill is tested for impairment at a level of reporting referred to as a reporting unit.

In a qualitative assessment, we assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. A significant amount of judgment is involved in determining if an event representing an indicator of impairment has occurred between annual test dates. Such indicators may include: a significant decline in expected future cash flows; a sustained, significant decline in stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; the testing for recoverability of a significant asset group within a reporting unit; and reductions in revenue or profitability growth rates.

In the quantitative impairment test, we compare the fair value of a reporting unit with its carrying amount, including goodwill. We estimate the fair value of each reporting unit using a combination of the income approach and market approaches.

The income approach incorporates the use of a discounted cash flow method in which the estimated future cash flows and terminal values for each reporting unit are discounted to a present value using a discount rate. Cash flow projections are based on management's estimates of economic and market conditions which drive key assumptions of revenue growth rates, operating margins, capital expenditures and working capital requirements. The discount rate in turn is based on the specific risk characteristics of each reporting unit, the weighted average cost of capital and its underlying forecast.

The market approach estimates fair value by applying performance metric multiples to the reporting unit's prior and expected operating performance. The multiples are derived from comparable publicly traded companies with similar operating and investment characteristics as the reporting unit.

The fair values determined by the market approach and income approach, as described above, are weighted to determine the fair value for each reporting unit. Although we have consistently used the same methods in developing the assumptions and estimates underlying the fair value calculations, such estimates are uncertain and may vary from actual results.

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 recognize the rebate based on a systematic and rational allocation of the cash consideration offered to each of the underlying transactions that results in our progress towards earning the rebate provided the

amounts are probable and reasonably estimable. If actual performance does not match our estimates, we may be required to adjust our receivables.

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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. Our ongoing consideration of all these factors could result in an increase in our allowance for credit losses in the future, which could adversely affect our operating results.

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 us to allocate the purchase price for each acquisition 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. Independent appraisals may be used to assist in the determination of the fair value of certain assets and liabilities. Such appraisals are based on significant estimates, such as forecasted revenues or profits utilized in determining the fair value of contract-related acquired intangible assets or liabilities.

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. Significant changes in assumptions and estimates subsequent to completing the allocation of the purchase price to the assets and liabilities acquired, as well as differences in actual and estimated results, could result in material impacts to our results of operations.

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.

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RESULTS OF OPERATIONS

The Year Ended March 31, 2018 Compared to the Year Ended March 31, 2017

Technology Segment

The results of operations for our technology segment for the years ended March 31, 2018 and 2017 were as follows (in thousands):

	Year Ended March 31,			
	2018	2017	Change	
Sales of product and services	\$1,364,145	\$1,290,228	\$73,917	5.7 %
Fee and other income	5,387	4,709	678	14.4 %
Net sales	1,369,532	1,294,937	74,595	5.8 %
Cost of sales, product and services	1,082,245	1,025,188	57,057	5.6 %
Gross profit	287,287	269,749	17,538	6.5 %
Selling, general, and administrative expenses	214,980	193,594	21,386	11.0 %
Depreciation and amortization	9,918	7,243	2,675	36.9 %
Operating expenses	224,898	200,837	24,061	12.0 %
Operating income	\$62,389	\$68,912	\$(6,523)	(9.5 %)
Adjusted gross billings of product and services	\$1,891,065	\$1,775,708	\$115,357	6.5 %
Segment Adjusted EBITDA	\$80,555	\$82,117	\$(1,562)	(1.9 %)

Net sales: Net sales for the year ended March 31, 2018 increased by \$74.6 million or 5.8% to \$1,369.5 million due to an increase in demand for products and services due mostly from our telecom, media & entertainment, technology, financial services, and healthcare customers. Sales of product and services increased 5.7% due to a 6.5% increase in Adjusted gross billings of product and services to \$1,891.1 million from \$1,775.7 million in the prior year. The percentage increase in net sales was lower than the increase in Adjusted gross billings of product and services due to 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.

Our year over year sales of product and services during the fiscal year ended March 31, 2018 recorded growth of 23.1% in the first quarter and 4.3% in the third quarter, while the remaining two quarters were slightly under prior year levels. These results follow fiscal year ended March 31, 2017 in which we recorded double digit growth for all four quarters over the previous year. We experienced a large sequential increase in the quarterly sales of product and services during the first quarter for the year ended March 31, 2018, stable sales levels in the second quarter, and decreases in the third and fourth quarter for sales of product and services. The reduction in the sequential sales of product and services in the third quarter is due primarily to lower seasonal purchases by SLED customers and a reduction in purchases by technology customers; the reduction in sequential sales of product and services in the fourth quarter was a result decreased sales to telecom, media and entertainment, financial services, and healthcare customers.

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

Quarter Ended	Sequential	Year over Year
March 31, 2018	(3.8 %)	(1.0 %)
December 31, 2017	(7.5 %)	4.3 %
September 30, 2017	0.2 %	(1.0 %)

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June 30, 2017	11.1	%	23.1	%
March 31, 2017	1.3	%	10.3	%

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We rely on our vendors or distributors to fulfill a large majority of our shipments to our customers. As of March 31, 2018, we had open orders of \$148.2 million and deferred revenue of \$50.6 million. As of March 31, 2017, we had open orders of \$184.1 million and deferred revenues of \$68.3 million. The decrease of \$17.7 million in deferred revenues as of March 31, 2018 as compared to the prior year is due reduction in the level of payments received for committed inventory.

We analyze sales of products and services by customer end market and by manufacturer. The percentage of net sales by industry and vendor are summarized below:

	Year Ended March 31,		Change			
	2018	2017				
<u>Revenue by customer end market:</u>						
Technology	24	%	23	%	1	%
SLED	17	%	21	%	(4)	%
Telecom, Media & Entertainment	14	%	15	%	(1)	%
Financial Services	15	%	13	%	2	%
Healthcare	14	%	11	%	3	%
Other	16	%	17	%	(1)	%
Total	100	%	100	%		
<u>Revenue by vendor:</u>						
Cisco Systems	43	%	47	%	(4)	%
HP Inc. & HPE	6	%	6	%	-	
NetApp	4	%	5	%	(1)	%
Sub-total	53	%	58	%	(5)	%
Other	47	%	42	%	5	%
Total	100	%	100	%		

Our revenues by customer end market have remained consistent over the prior year, with over 80% of our sales being generated from customers within the five end markets specified above. In fiscal year 2018, we had an increase in revenues from customers in the healthcare, financial services and technology industries, offset by decreases in revenues to SLED, and telecommunications, media and entertainment customers. These changes were driven by changes in customer buying cycles and specific IT related initiatives, rather than the acquisition or loss of a customer or set of customers.

The majority of our revenues by vendor are derived from Cisco Systems, Hewlett Packard companies and NetApp, which in total, declined to 53% of our in fiscal year 2018 from 58% in the prior year. This decrease is due to competition and developments in the IT industry. None of the vendors included within the “other” category exceeded 5% of total revenues.

Cost of sales, product and services: The 5.6% increase in cost of sales, product and services was due to the increase in sales of product and services, offset by an improvement in gross margins. Our gross margin on the sale of product and services increased 20 basis points to 20.7% for the year ended March 31, 2018, from 20.5% 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 60 basis points to the gross margin, while being offset by a 40 basis points due to a decrease in vendor incentives earned as a percentage of sales of product and services for the year ended March 31, 2018 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.

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Selling, general, and administrative expenses: Selling, general, and administrative expenses of \$215.0 million for the year ended March 31, 2018 increased by \$21.4 million, or 11.0% from the prior year. Salaries and benefits increased \$15.5 million or 9.5% to \$177.5 million, compared to \$162.1 million during the prior year. Approximately 18% 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 1,215 employees as of March 31, 2018, an increase of 89, or 7.9%, from 1,126 at March 31, 2017, of which 73 of the positions added in the past year relate to sales, marketing, and professional services personnel. The acquisitions of OneCloud and IDS personnel accounted for all of the net gain in the number of employees. General and administrative expenses increased \$4.7 million, or 18.2%, to \$30.8 million during the fiscal year ended March 31, 2018 compared to \$26.1 million the prior year. The additional costs are substantially due to our expanding geographical presence and the acquisition OneCloud in May of 2017 and IDS in September, 2017. We also incurred additional expenses due to increases in personnel, including communications, and travel and entertainment expenses.

Depreciation and amortization expense: Depreciation and amortization expense increased \$2.7 million, or 36.9%, to \$9.9 million during the fiscal year ended March 31, 2018 compared to \$7.2 million in the prior year. The increase in depreciation and amortization expense is, again, related to the acquisition of OneCloud in May 2017 and IDS in September 2017.

Segment earnings: As a result of the foregoing, operating income decreased \$6.5 million, or 9.5%, to \$62.4 million for the year ended March 31, 2018 and Adjusted EBITDA decreased 5.1% to \$72.3 million for the year ended March 31, 2018.

Financing Segment

The results of operations for our financing segment for the years ended March 31, 2018 and 2017 were as follows (in thousands):

	Year Ended March 31,			
	2018	2017	Change	
Financing revenue	\$40,671	\$34,200	\$6,471	18.9 %
Fee and other income	794	252	542	215.1 %
Net sales	41,465	34,452	7,013	20.4 %
Direct lease costs	5,270	4,442	828	18.6 %
Gross profit	36,195	30,010	6,185	20.6 %
Selling, general, and administrative expenses	13,147	11,638	1,509	13.0 %
Depreciation and amortization	3	9	(6)	(66.7 %)
Interest and financing costs	1,195	1,543	(348)	(22.6 %)
Operating expenses	14,345	13,190	1,155	8.8 %
Operating income	\$21,850	\$16,820	\$5,030	29.9 %
Segment Adjusted EBITDA	\$22,219	\$17,170	\$5,049	29.4 %

Net sales: Net sales increased by \$7.0 million, or 20.4%, to \$41.5 million for the year ended March 31, 2018. The increase was due to higher post-contract earnings, portfolio earnings and other financing revenue which were partially offset by lower transactional gains. Post-contract earnings increased by \$6.8 million to \$21.7 million due mainly to early terminations of certain financing transactions, and higher renewal rentals over the prior year. Portfolio earnings increased \$0.8 million to \$10.1 million for the year ended March 31, 2018 compared to the prior year, mainly due to an increase in operating lease revenues. Other financing revenues increased \$0.2 million to \$2.1 million. Transactional gains decreased \$1.3 million to \$6.8 million for the year ended March 31, 2018 from \$8.1 million in the prior year due

to a lower volume of sales of financing receivables. Total proceeds from sales of financing receivables were \$267.3 million and \$339.4 million for the years ended March 31, 2018 and 2017, respectively.

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Our total financing receivables and operating leases increased as of March 31, 2018 to \$138.4 million from \$123.5 million in the prior year, which was due to an increase in notes receivables of \$17.5 million, partially offset by reductions of \$1.3 million in both operating leases and direct finance leases as compared to the prior year.

Direct lease costs: Direct lease costs increased 18.6% or \$0.8 million for the year ended March 31, 2018 as compared to the prior year, due to an increase in depreciation expense related to a higher volume of operating lease revenues. Gross profit increased \$6.7 million or 22.3% due to higher post contract earnings, portfolio earnings, and other financing revenues, partially offset by transactional gains compared to the prior year.

Selling, general, and administrative expenses: Selling, general, and administrative expenses were \$13.1 million, an increase of \$1.5 million or 13.0%, due to an increase in salaries and benefits, and software license and maintenance expense. Salaries and benefits increased by \$1.7 million, or 17.6%, to \$11.0 million primarily due to an increase in variable compensation due to the increase in gross profit. Our financing segment employed 45 people as of March 31, 2018 compared to 47 employees as of March 31, 2017. General and administrative expenses increased \$0.1 million due to an increase reserves for credit losses expense of \$0.3 million over the prior year, partially offset by cost control efforts.

Interest and financing costs: Costs decreased \$0.3 million or 22.6% to \$1.2 million during the year ended March 31, 2018, as compared to \$1.5 million during the prior year. Our total notes payable increased as of March 31, 2018 to \$52.3 million from \$36.5 for the prior year, although our average balance of notes payable outstanding during the year was lower than during the year ended March 31, 2017. Our weighted average interest rate for our notes payable was 4.04% as of March 31, 2018 compared to 3.72% for March 31, 2017.

Segment earnings: As a result of the foregoing, operating income and Adjusted EBITDA increased \$5.0 million, or 29.9%, to \$21.9 million for the year ended March 31, 2018.

Consolidated

Other income: Other income and expense during the year ended March 31, 2018 was a net expense of \$0.3 million, which consists of interest income on cash and cash equivalents, more than offset by foreign currency transaction losses. During the year ended March 31, 2017 we received \$380 thousand related to the dynamic random access memory (DRAM) class action lawsuit, which claimed that manufacturers fixed the price for DRAM, a common component in consumer electronics, which is included within other income in our consolidated statement of operations.

Income taxes: Our effective income tax rates for the years ended March 31, 2018 and 2017 were 34.3% and 41.3%, respectively. In fiscal year 2018, we revised our estimated annual effective tax rate to reflect a change in the federal statutory rate from 35% to 21%, resulting from legislation that was enacted on December 22, 2017. The rate change is administratively effective at the beginning of fiscal years ending in 2018, using a blended rate for the annual period. As a result, the blended statutory tax rate for our current fiscal year is 31.5%. In addition, we recognized an estimated tax benefit in our tax provision for the period related to adjusting our deferred tax balance to reflect the new corporate tax rate. Income tax expense for fiscal year 2018 was adjusted to reflect the effects of the change in the tax law and resulted in a decrease in income tax expense of \$1.6 million.

Net earnings: Net earnings were \$55.1 million for the year ended March 31, 2018, an increase of 9.0% or \$4.6 million as compared to \$50.6 million in the prior fiscal year.

Basic and fully diluted earnings per common share were \$4.00 and \$3.95, respectively, for the year ended March 31, 2018. Basic and fully diluted earnings per common share were \$3.65 and \$3.60, respectively, for the year ended March 31, 2017.

Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the year ended March 31, 2018 were 13.8 million and 14.0 million, respectively. Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the year ended March 31, 2017 were 13.9 million and 14.0 million, respectively.

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The Year Ended March 31, 2017 Compared to the Year ended March 31, 2016

Technology Segment

The results of operations for our technology segment for the years ended March 31, 2017 and 2016 were as follows (in thousands):

	Year Ended March 31,		Change		
	2017	2016			
Sales of product and services	\$1,290,228	\$1,163,337	\$126,891	10.9	%
Fee and other income	4,709	5,728	(1,019)	(17.8	%)
Net sales	1,294,937	1,169,065	125,872	10.8	%
Cost of sales, product and services	1,025,188	931,782	93,406	10.0	%
Gross profit	269,749	237,283	32,466	13.7	%
Selling, general, and administrative expenses	193,594	167,992	25,602	15.2	%
Depreciation and amortization	7,243	5,532	1,711	30.9	%
Interest and financing costs	-	70	(70)	(100.0	%)
Operating expenses	200,837	173,594	27,243	15.7	%
Operating income	\$68,912	\$63,689	\$5,223	8.2	%
Adjusted gross billings of product and services	\$1,775,708	\$1,556,463	\$219,245	14.1	%
Segment Adjusted EBITDA	\$82,117	\$75,223	\$6,984	9.2	%

Net sales: Net sales for the year ended March 31, 2017 increased by \$125.9 million or 10.8% to \$1,294.9 million due to an increase in demand for products and services due mostly from our telecom, media & entertainment, technology, financial services, and healthcare customers. Sales of product and services increased 10.9% due to a 14.1% increase in Adjusted gross billings of product and services to \$1,775.7 million from \$1,556.5 million in the prior year. The percentage increase in net sales was lower than the increase in Adjusted gross billings of product and services due to 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 all four quarters during the year ended March 31, 2017. 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, 2017, followed by a decrease during the third quarter of the fiscal year, and an increase in fourth quarter sales of product and services. Fourth quarter sales of product and services was 10.3% higher than the prior year primarily due to increased customer demand from our technology, and financial services 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, 2017	1.3 %	10.3 %
December 31, 2016	(12.1 %)	10.3 %
September 30, 2016	24.5 %	11.4 %
June 30, 2016	(0.5 %)	11.7 %
March 31, 2016	1.3 %	13.3 %

We rely on our vendors or distributors to fulfill a large majority of our shipments to our customers. As of March 31, 2017, we had open orders of \$184.1 million and deferred revenue of \$68.3 million. As of March 31, 2016, we had open orders of \$109.4 million and deferred revenues of \$19.5 million. The increase of \$48.8 million in deferred revenues as of March 31, 2017 as compared to the prior year is due to payments received for committed inventory.

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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 net sales by industry and vendor are summarized below:

	Year Ended March 31,		Change			
	2017	2016				
<u>Revenue by customer end market:</u>						
Technology	23	%	23	%	-	
SLED	21	%	22	%	(1	%)
Telecom, Media & Entertainment	15	%	14	%	1	%)
Financial Services	13	%	12	%	1	%)
Healthcare	11	%	10	%	1	%)
Other	17	%	19	%	(2	%)
Total	100	%	100	%		
<u>Revenue by vendor:</u>						
Cisco Systems	47	%	49	%	(2	%)
HP Inc. & HPE	6	%	7	%	(1	%)
NetApp	5	%	5	%	-	
Sub-total	58	%	61	%	(3	%)
Other	42	%	39	%	3	%)
Total	100	%	100	%		

Our revenues by customer end market have remained consistent over the prior year of which approximately 80% of our sales generated from customers within the five end markets identified above. In fiscal year 2017, we had an increase in revenues from customers in the technology, telecommunications, media and entertainment, and healthcare industries, offset by decreases in revenues to SLED customers. These changes were driven by changes in customer buying cycles and specific IT related initiatives, rather than the acquisition or loss of a customer or set of customers.

The majority of our revenues by vendor are derived from Cisco Systems, Hewlett Packard companies and NetApp, which in total, declined to 58% of our in fiscal year 2017 from 61% in the prior year. This decrease is due to competition and developments in the IT industry. None of the vendors included within the "other" category exceeded 5% of total revenues.

Cost of sales, product and services: The 10.0% increase in cost of sales, product and services was due to the increase in sales of product and services, offset by an improvement in gross margins. Our gross margin on the sale of product and services increased 60 basis points to 20.5% for the year ended March 31, 2017, from 19.9% 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 50 basis points to the gross margin and an additional 14 basis points due to an increase in vendor incentives earned as a percentage of sales of product and services for the year ended March 31, 2017 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.

Selling, general, and administrative expenses: Selling, general, and administrative expenses of \$193.6 million for the year ended March 31, 2017 increased by \$25.6 million, or 15.2% from the prior year. Salaries and benefits increased \$22.0 million or 15.7% to \$162.1 million, compared to \$140.1 million during the prior year. Approximately 42% 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 1,126 employees as of March 31,

2017, an increase of 106, or 10.4%, from 1,020 at March 31, 2016, of which 98 of the positions added in the past year relate to sales, marketing, and professional services personnel. General and administrative expenses increased \$3.7 million, or 16.4%, to \$26.1 million during the fiscal year ended March 31, 2017 compared to \$22.4 million the prior year. The additional costs are substantially due to our expanding geographical presence, and the acquisition of IGX in December 2015 and Consolidated IT Services in December 2016. We also incurred additional expenses due to increases in personnel, including communications, and travel and entertainment expenses.

Depreciation and amortization expense: Depreciation and amortization expense increased \$1.7 million, or 30.9%, to \$7.2 million during the fiscal year ended March 31, 2017 compared to \$5.5 million in the prior year. The increase in depreciation and amortization expense is related to the acquisition of Consolidated IT Services in December, 2016 and IGX in December, 2015.

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Segment earnings: As a result of the foregoing, operating income increased \$5.2 million, or 8.2%, to \$68.9 million for the year ended March 31, 2017 and Adjusted EBITDA increased 10.0% to \$76.2 million for the year ended March 31, 2017.

Financing Segment

The results of operations for our financing segment for the years ended March 31, 2017 and 2016 were as follows (in thousands):

	Year Ended March 31,			
	2017	2016	Change	
Financing revenue	\$34,200	\$35,091	\$(891)	(2.5 %)
Fee and other income	252	43	209	486.0%
Net sales	34,452	35,134	(682)	(1.9 %)
Direct lease costs	4,442	10,360	(5,918)	(57.1 %)
Gross profit	30,010	24,774	5,236	21.1 %
Selling, general, and administrative expenses	11,638	10,988	650	5.9 %
Depreciation and amortization	9	16	(7)	(43.8 %)
Interest and financing costs	1,543	1,708	(165)	(9.7 %)
Operating expenses	13,190	12,712	478	3.8 %
Operating income	\$16,820	\$12,062	\$4,758	39.4 %
Segment Adjusted EBITDA	\$17,179	\$12,484	\$4,695	37.6 %

Net sales: Net sales decreased by \$0.7 million, or 1.9%, to \$34.5 million for the year ended March 31, 2017. The decrease was due to lower portfolio earnings which were partially offset by higher post-contract earnings and other financing revenues, which are primarily composed of contingent or usage based lease revenues. Portfolio earnings decreased \$6.5 million to \$9.3 million for the year ended March 31, 2017 compared to the prior year, mainly due to a decrease in operating lease revenues. Post-contract earnings increased by \$3.0 million to \$15.0 million due mainly to higher renewal rentals over the prior year. Transactional gains increased \$1.0 million to \$8.1 million for the year ended March 31, 2017 from \$7.1 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 \$339.4 million and \$223.3 million for the years ended March 31, 2017 and 2016, respectively.

Our total financing receivables and operating leases decreased as of March 31, 2017 to \$123.5 million from \$132.4 million in the prior year, which was due primarily to a decrease in operating leases of \$9.5 million to \$8.3 million as of March 31, 2017, compared to \$17.7 million as of March 31, 2016.

Direct lease costs: Direct lease costs decreased 57.1% or \$5.9 million for the year ended March 31, 2017 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 \$5.2 million or 21.1% due to higher post contract earnings, other financing revenues, and higher transactional gains, partially offset by lower portfolio earnings compared to the prior year.

Selling, general, and administrative expenses: Selling, general, and administrative expenses were \$11.6 million, an increase of \$0.6 million or 5.9%, primarily due to a higher reserve for credit losses, an increase in salaries and benefits, and software license and maintenance expense. Salaries and benefits increased by \$0.2 million, or 1.8%, to \$9.4 million due to an increase in variable compensation of \$0.9 million partially offset by reduction in salaries expense of \$0.7 million. Our financing segment employed 47 people as of March 31, 2017 compared to 54 employees as of March 31, 2016. General and administrative expenses increased \$0.4 million primarily due to an increase

reserves for credit losses expense of \$0.3 million over the prior year.

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Interest and financing costs: Costs decreased \$0.2 million or 9.7% to \$1.5 million during the year ended March 31, 2017, as compared to \$1.7 million during the prior year. Our total notes payable decreased as of March 31, 2017, and our average balance of notes payable outstanding during the year was lower than during the year ended March 31, 2016. Our weighted average interest rate for our notes payable was 3.72% as of March 31, 2017 compared to 3.13% for March 31, 2016.

Segment earnings: As a result of the foregoing, operating income increased \$4.8 million, or 39.4%, to \$16.8 million for the year ended March 31, 2017 and Adjusted EBITDA increased 39.3% to \$16.8 million for the year ended March 31, 2017.

Consolidated

Other income: During the year ended March 31, 2017 we received \$380 thousand related to the dynamic random access memory (DRAM) class action lawsuit, which claimed that manufacturers fixed the price for DRAM, a common component in consumer electronics, which is included within other income in our consolidated statement of operations. We reported no other income for the year ended March 31, 2016.

Income taxes: Our effective income tax rates for the years ended March 31, 2017 and 2016 were 41.3% and 40.9%, respectively. The increase in effective income tax rate is primarily due to changes in state apportionment factors.

Net earnings: Net earnings were \$50.6 million for the year ended March 31, 2017, an increase of 13.0% or \$5.8 million as compared to \$44.7 million in the prior fiscal year.

Basic and fully diluted earnings per common share were \$3.65 and \$3.60, respectively, for the year ended March 31, 2017. Basic and fully diluted earnings per common share were \$3.08 and \$3.05, respectively, for the year ended March 31, 2016.

Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the year ended March 31, 2017 were 13.9 million and 14.0 million, respectively. 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 14.5 million and 14.7 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"). ePlus Technology, inc's agreement with WFCDF has an aggregate credit limit of \$250 million.

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

October 31 of that same year.

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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 review, 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, 2018 or March 31, 2017, while the maximum credit limit was \$30.0 million for both periods. The borrowings and repayments under the floor plan component are reflected as “net borrowings on floor plan facility” in the cash flows from financing activities section of our consolidated statements of cash flows.

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

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

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,		
	2018	2017	2016
Net cash provided by operating activities	\$82,766	\$33,016	\$14,110
Net cash used in investing activities	(57,677)	(26,345)	(50,179)
Net cash (used in) provided by financing activities	(16,765)	7,814	54,448
Effect of exchange rate changes on cash	114	509	212
Net increase in cash and cash equivalents	\$8,438	\$14,994	\$18,591

Cash flows from operating activities. Cash provided by operating activities totaled \$82.8 million in the year ended March 31, 2018. Net earnings adjusted for the impact of non-cash items was \$60.8 million. Net changes in assets and liabilities resulted in an increase to cash of \$21.9 million, primarily due to cash provided from inventories of \$55.0 million, accounts receivable of \$6.6 million, and accounts payable of \$0.3 million which were partially offset by an increase in deferred costs, other intangibles, and other assets of \$19.5 million, financing receivables of \$8.5 million, and salaries and commissions payable, deferred revenue and other liabilities \$11.9 million. The large reduction in inventory is due to committed customer orders from the prior year invoiced in the current fiscal year. Offsetting the

inventory reduction was a decrease in deferred revenues of \$34.0 million which were payments received in advance of delivering this committed inventory. 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.

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Cash provided by operating activities totaled \$33.0 million in the year ended March 31, 2017. Net earnings adjusted for the impact of non-cash items was \$54.4 million. Net changes in assets and liabilities resulted in a decrease to cash of \$21.4 million, primarily due to cash used for inventories of \$60.0 million, accounts receivable of \$17.2 million, and financing receivables of \$5.8 million, which were partially offset by an increase in salaries and commissions payable, deferred revenue and other liabilities \$59.0 million, and an increase in accounts payable of \$3.8 million. The large increase in inventory is due to committed customer orders, which are offset by an increase in deferred revenues of \$47.0 million, which includes payments received in advance of delivering this committed inventory. 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 \$14.1 million in the year ended March 31, 2016. Net earnings adjusted for the impact of non-cash items was \$55.0 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

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,		
	2018	2017	2016
(DSO) Days sales outstanding (1)	54	59	56
(DIO) Days inventory outstanding (2)	12	24	7
(DPO) Days payable outstanding (3)	(42)	(45)	(45)
Cash conversion cycle	24	38	18

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

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

Represents the rolling three-month average of the combined balance of accounts payable-trade and accounts (3) payable-floor plan for our Technology segment at the end of the period divided by Cost of adjusted gross billings, 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 24 days at March 31, 2018, compared to 38 days at March 31, 2017, primarily driven by a decrease in DIO of 12 days. Our DIO as of March 31, 2018 was primarily impacted by a decrease in average inventory balances of 57.4%, or \$53.7 million, over the prior year primarily due to a large project for one of our major customers. Our DSO decreased by 5 days as a result of the average accounts receivable trade balance decreasing 11.7% over the prior year’s fourth quarter and Adjusted gross billings of product and services decreasing

3.6% for the same period. The remaining change in our DSO was due to timing of collections.

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Our cash conversion cycle increased to 38 days at March 31, 2017, compared to 18 days at March 31, 2016, primarily driven by an increase in DIO of 17 days. Our DIO as of March 31, 2017 was primarily impacted by an increase in average inventory balances of 271%, or \$76.3 million, over the prior year primarily due to a large project for one of our major customers. Offsetting this increase in inventory was a \$47.0 million increase in deferred revenues due to payments received for the committed inventory, which are not reflected in our cash conversion cycle calculation. The increase in our DSO is a result of Adjusted gross billings of product and services increasing 14.9% over the prior year's fourth quarter, while the average accounts receivable trade balance increased 20.0% for the same period. The remaining change in our DSO was due to timing of collections.

Cash flows related to investing activities. Cash used in investing activities was \$57.7 million during the year ended March 31, 2018, included cash used in acquisitions, net of cash acquired of \$37.7 million, purchases of property, equipment, and operating lease equipment, and assets to be leased of \$14.0 million and, and net issuance of financing receivables of \$20.4 million, partially offset primarily by proceeds from sale of property, equipment, and operating lease equipment of \$14.4 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 \$26.4 million during the year ended March 31, 2017, which included purchases of property, equipment, and operating lease equipment, and assets to be leased of \$19.4 million and cash used in acquisitions, net of cash acquired of \$9.1 million, and net issuance of financing receivables of \$5.1 million, partially offset primarily by proceeds from sale of property, equipment, and operating lease equipment of \$7.3 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 \$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 flows from financing activities. Cash used in financing activities was \$16.8 million for the year ended March 31, 2018, driven by repurchases of common stock of \$35.2 million, net repayments on our floor plan facility of \$20.5 million, and by payments to settle financing of acquisitions of \$2.1 million, partially offset by net borrowings of non-recourse and recourse notes payable of \$41.1 million.

Cash provided by financing activities was \$7.8 million for the year ended March 31, 2017, driven by net borrowings of non-recourse and recourse notes payable of \$33.3 million and net borrowing on our floor plan facility of \$6.2 million, partially offset by repurchases of common stock of \$30.5 million.

Cash provided by financing activities was \$54.4 million for the year ended March 31, 2016, driven by net borrowings of non-recourse and recourse notes payable of \$44.6 million. This cash provided by financing activities is partially offset by repurchases of common stock of \$11.3 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.

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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, 2018, our non-recourse notes payable portfolio increased 39.5% to \$50.9 million, as compared to \$36.5 million at March 31, 2017. Our recourse notes payable increased 47.9% to \$1.3 million as of March 31, 2018, compared to \$0.9 million as of March 31, 2017.

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, 2018, the facility had an aggregate limit of the two components of \$250.0 million with an accounts receivable sub-limit of \$30.0 million.

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

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, 2018.

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.

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

Floor Plan Component

Purchases by ePlus Technology, inc. including computer technology products, software, maintenance and services, are in part financed through a floor plan component in which interest expense for the first thirty to ninety 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 ninety-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 ninety-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, 2018	Balance as of March 31, 2018	Maximum Credit Limit at March 31, 2017	Balance as of March 31, 2017
\$ 250,000	\$ 112,109	\$ 250,000	\$ 132,612

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, 2018 or March 31, 2017, while the maximum credit limit was \$30.0 million for both periods.

Performance Guarantees

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

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K or other contractually narrow or limited purposes. As of March 31, 2018 and 2017, we were not involved in any unconsolidated special purpose entity transactions.

Adequacy of Capital Resources

The continued implementation of our business strategy will require a significant investment in both resources and managerial focus. In addition, we may selectively acquire other companies that have attractive customer relationships and skilled sales 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.

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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, pricing discounts offered by manufacturers at their year ends, 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” herein.

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, 2018 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)	\$52,278	\$42,206	\$ 10,024	\$ 48	\$ -
Interest payments on recourse and non-recourse notes payable	1,100	789	310	1	-
Operating lease obligations	15,922	6,356	6,528	3,038	-