EPLUS INC
Form 10-Q/A
June 30, 2008

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

# FORM 10-Q/A
(Amendment No. 1)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2007

OR

o 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: 0-28926

ePlus inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

The number of shares of common stock outstanding as of April 30, 2008 was 8,231,741.

Explanatory Note

ePlus inc. is filing this amendment to its Quarterly Report on Form 10-Q ("Form 10-Q/A") to restate its Condensed Consolidated Statement of Cash Flows for the nine months ended December 31, 2007 as described in Note 2, “Restatement of Condensed Consolidated Statement of Cash Flows”. As previously disclosed in our Quarterly Report on Form 10-Q for the period ended December 31, 2007, as filed with the United States Securities and Exchange Commission (the "SEC") on May 5, 2008 (the "Original Form 10-Q"), we engaged in certain transactions involving the sale of direct financing and operating leases. Several groups of operating leases sold were funded with non-recourse debt by the same lenders to whom the Company sold the leases. The purchase price for the sales consisted of cash proceeds of $893 thousand and a direct reduction of the related non-recourse debt in the amount of $11,400 thousand. In the Condensed Consolidated Statement of Cash Flows for the nine month period ended December 31, 2007, the direct reduction of the non-recourse debt was inappropriately presented as cash from operating activities and cash used in financing activities as if we had received cash proceeds for the full amount. The Company also retained a residual value in a portion of the sales of leased equipment of $653 thousand which was inappropriately classified. The Company has concluded to restate its Condensed Consolidated Statement of Cash Flows.

This restatement does not impact our previously reported net increase in cash and cash equivalents in our Condensed Consolidated Statement of Cash Flows for the nine months ended December 31, 2007. Additionally, this restatement does not impact our Condensed Consolidated Balance Sheets or Condensed Consolidated Statements of Operations for any period presented.

For the convenience of the reader, this Form 10-Q/A sets forth our Original Form 10-Q in its entirety, as amended by, and to reflect, the restatement. No material changes have been made in this Form 10-Q/A to update other disclosures presented in the Original Form 10-Q, except as required to reflect the effects of the restatement. This Form 10-Q/A does not reflect events occurring after the filing of the Original Form 10-Q or modify or update those disclosures, including the exhibits to the Original Form 10-Q affected by subsequent events. The following sections of this Form 10-Q/A have been amended to reflect the restatement:

Part I—Item 1—Financial Statements (Condensed Consolidated Statements of Cash Flows, As Restated, and Note 2, “Restatement of Condensed Consolidated Statement of Cash Flows”,

Part I—Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations (Liquidity and Capital Resources),

Part I—Item 4—Controls and Procedures, and

Part II—Item 1A—Risk Factors.

This Form 10-Q/A has been signed as of a current date and all certifications of the Company's Chief Executive Officer and Chief Financial Officer are given as of a current date. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the SEC subsequent to the filing of the Original Form 10-Q for the nine months ended December 31, 2007, including any amendments to those filings.

TABLE OF CONTENTS

ePlus inc. AND SUBSIDIARIES

Table of Contents

Cautionary Language About Forward-Looking Statements

This Quarterly Report on Form 10-Q/A contains certain statements that are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are made in reliance upon the protections provided by such acts for forward-looking statements. Such statements are not based on historical fact, but are based upon numerous assumptions about future conditions that may not occur. Forward-looking statements are generally identifiable by use of forward-looking words such as "may," "will," "should," "intend," "estimate," "believe," "expect," "anticipate," "project" an expressions. Readers are cautioned not to place undue reliance on any forward-looking statements made by us or on our behalf. Any such statement speaks only as of the date the statement was made. 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.

Although we have been offering IT financing since 1990 and direct marketing of IT products since 1997, our comprehensive set of solutions—the bundling of our direct IT sales, professional services and financing with our proprietary software—has been available since 2002. Consequently, we may encounter some of the challenges, risks, difficulties and uncertainties frequently faced by companies providing new and/or bundled solutions in an evolving market. Some of these challenges relate to our ability to:

- manage a diverse product set of solutions in highly-competitive markets;
- increase the total number of customers utilizing bundled solutions by up-selling within our customer base and gain new customers;
- adapt to meet changes in markets and competitive developments;
- maintain and increase advanced professional services by retaining highly-skilled personnel and vendor certifications;
- integrate with external IT systems including those of our customers and vendors; and
- continue to update our software and technology to enhance the features and functionality of our products.

We cannot be certain that our business strategy will be successful or that we will successfully address these and other challenges, risks and uncertainties. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the "Risk Factors" and "Results of Operations" sections contained elsewhere in this document, as well as our Annual Report on Form 10-K for the fiscal year ended March 31, 2007, any subsequent Reports on Form 10-Q and Form 8-K and other filings with the SEC.

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

| | As of December 31, 2007 | As of March 31, 2007 |
|---|---|---|
| ASSETS | (in thousands) | |
| Cash and cash equivalents | $ 65,590 | $ 39,680 |
| Accounts receivable—net | 108,457 | 110,662 |
| Notes receivable | 186 | 237 |
| Inventories | 8,717 | 6,851 |
| Investment in leases and leased equipment—net | 161,074 | 217,170 |
| Property and equipment—net | 5,007 | 5,529 |
| Other assets | 15,011 | 11,876 |
| Goodwill | 26,125 | 26,125 |
| TOTAL ASSETS | $ 390,167 | $ 418,130 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Accounts payable—equipment | $ 6,482 | $ 6,547 |
| Accounts payable—trade | 26,980 | 21,779 |
| Accounts payable—floor plan | 51,618 | 55,470 |
| Salaries and commissions payable | 4,491 | 4,331 |
| Accrued expenses and other liabilities | 26,674 | 25,960 |
| Income taxes payable | 3,531 | - |
| Recourse notes payable | - | 5,000 |
| Non-recourse notes payable | 104,741 | 148,136 |
| Deferred tax liability | 4,457 | 4,708 |
| Total Liabilities | 228,974 | 271,931 |
| COMMITMENTS AND CONTINGENCIES (Note 7) | | |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, $.01 par value; 2,000,000 shares authorized; none issued or outstanding | - | - |
| Common stock, $.01 par value; 25,000,000 shares authorized; 11,210,731 issued and 8,231,741 outstanding at December 31, 2007 and 11,210,731 issued and 8,231,741 outstanding at March 31, 2007 | 112 | 112 |
| Additional paid-in capital | 77,471 | 75,909 |
| Treasury stock, at cost, 2,978,990 and 2,978,990 shares, respectively | (32,884) | (32,884) |
| Retained earnings | 115,878 | 102,754 |
| | 616 | 308 |

| | | | | |
|---|---|---|---|---|
| Accumulated other comprehensive income—foreign currency translation adjustment | | | | |
| Total Stockholders' Equity | | 161,193 | | 146,199 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ | 390,167 | $ | 418,130 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

5

Table of Contents

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

| | Three Months Ended December 31, | | | | Nine Months Ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | | 2006 | | 2007 | | 2006 | |
| | (amounts in thousands, except per share data) | | | | | | | |
| Sales of product and services | $ | 168,394 | $ | 183,277 | $ | 564,628 | $ | 538,923 |
| Sales of leased equipment | | 13,740 | | 2,557 | | 40,544 | | 4,376 |
| | | 182,134 | | 185,834 | | 605,172 | | 543,299 |
| Lease revenues | | 12,194 | | 16,000 | | 43,810 | | 40,853 |
| Fee and other income | | 4,111 | | 3,544 | | 13,124 | | 9,484 |
| Patent settlement income | | - | | 17,500 | | - | | 17,500 |
| | | 16,305 | | 37,044 | | 56,934 | | 67,837 |
| TOTAL REVENUES | | 198,439 | | 222,878 | | 662,106 | | 611,136 |
| COSTS AND EXPENSES | | | | | | | | |
| Cost of sales, product and services | | 148,802 | | 161,254 | | 500,202 | | 477,879 |
| Cost of leased equipment | | 13,308 | | 2,509 | | 38,919 | | 4,284 |
| | | 162,110 | | 163,763 | | 539,121 | | 482,163 |
| Direct lease costs | | 4,460 | | 5,574 | | 16,353 | | 16,170 |
| Professional and other fees | | 2,479 | | 7,245 | | 9,650 | | 13,295 |
| Salaries and benefits | | 17,069 | | 17,947 | | 53,971 | | 52,912 |
| General and administrative expenses | | 3,760 | | 4,050 | | 12,135 | | 12,921 |
| Interest and financing costs | | 1,818 | | 2,839 | | 6,590 | | 7,492 |
| | | 29,586 | | 37,655 | | 98,699 | | 102,790 |
| TOTAL COSTS AND EXPENSES (1) (2) | | 191,696 | | 201,418 | | 637,820 | | 584,953 |
| EARNINGS BEFORE PROVISION FOR INCOME TAXES | | 6,743 | | 21,460 | | 24,286 | | 26,183 |
| PROVISION FOR INCOME TAXES | | 2,992 | | 9,056 | | 10,671 | | 10,737 |
| NET EARNINGS | $ | 3,751 | $ | 12,404 | $ | 13,615 | $ | 15,446 |
| NET EARNINGS PER COMMON SHARE—BASIC | $ | 0.45 | $ | 1.51 | $ | 1.65 | $ | 1.88 |
| NET EARNINGS PER COMMON SHARE—DILUTED | $ | 0.45 | $ | 1.47 | $ | 1.63 | $ | 1.80 |
| WEIGHTED AVERAGE SHARES OUTSTANDING—BASIC | | 8,231,741 | | 8,231,741 | | 8,231,741 | | 8,222,700 |
| | | 8,422,256 | | 8,456,627 | | 8,375,412 | | 8,577,999 |

WEIGHTED AVERAGE SHARES
OUTSTANDING—DILUTED

(1) Includes amounts to related parties of $274 thousand and $238 thousand for the three months ended December 31, 2007 and December 31, 2006, respectively.
(2) Includes amounts to related parties of $798 thousand and $710 thousand for the nine months ended December 31, 2007 and December 31, 2006, respectively.

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

| | Nine Months Ended December 31, 2007 As Restated (1) | Nine Months Ended December 31, 2006 |
|---|---|---|
| | (in thousands) | |
| Cash Flows From Operating Activities: | | |
| Net earnings | $ 13,615 | $ 15,446 |
| | | |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 17,161 | 16,153 |
| Reserves for credit losses and sales returns | (246) | 788 |
| Provision for inventory losses | 65 | 150 |
| Impact of stock-based compensation | 1,562 | 719 |
| Excess tax benefit from exercise of stock options | - | (95) |
| Tax benefit of stock options exercised | - | 308 |
| Deferred taxes | (251) | - |
| Payments from lessees directly to lenders—operating leases | (10,754) | (8,244) |
| Loss on disposal of property and equipment | 4 | 90 |
| Gain on sale of operating leases | (403) | - |
| Gain on disposal of operating lease equipment | (1,078) | (600) |
| Excess increase in cash value of officers life insurance | (30) | (19) |
| Changes in: | | |
| Accounts receivable—net | 1,071 | (48,784) |
| Notes receivable | 51 | 65 |
| Inventories | (1,090) | (9,219) |
| Investment in direct financing and sale-type leases — net | (2,926) | (34,335) |
| Other assets | (2,241) | (279) |
| Accounts payable—equipment | 797 | (1,614) |
| Accounts payable—trade | 5,233 | 3,709 |
| Salaries and commissions payable, accrued expenses and other liabilities | 3,912 | 8,763 |
| Net cash provided by (used in) operating activities | 24,452 | (56,998) |
| | | |
| Cash Flows From Investing Activities: | | |
| Proceeds from sale of operating leases | 893 | - |
| Proceeds from sale of operating lease equipment | 3,400 | 1,270 |
| Purchases of operating lease equipment | (7,039) | (19,711) |
| Proceeds from sale of property and equipment | - | 2 |
| Purchases of property and equipment | (1,315) | (2,145) |
| Premiums paid on officers' life insurance | (238) | (219) |
| Net cash used in investing activities | (4,299) | (20,803) |

(1) See Note 2, "Restatement of Condensed Consolidated Statement of Cash Flows"

7

Table of Contents

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

| | Nine Months Ended December 31, 2007 As Restated (1) | Nine Months Ended December 31, 2006 |
|---|---|---|
| | (in thousands) | |
| Cash Flows From Financing Activities: | | |
| Borrowings: | | |
| Non-recourse | 35,792 | 87,029 |
| Repayments: | | |
| Non-recourse | (21,491) | (19,213) |
| Purchase of treasury stock | - | (2,900) |
| Proceeds from issuance of capital stock, net of expenses | - | 1,911 |
| Excess tax benefit from exercise of stock options | - | 95 |
| Net borrowings (repayment) on floor plan facility | (3,852) | 7,126 |
| Net borrowings (repayment) on recourse lines of credit | (5,000) | 4,000 |
| Net cash provided by financing activities | 5,449 | 78,048 |
| Effect of Exchange Rate Changes on Cash | 308 | 2 |
| Net Increase in Cash and Cash Equivalents | 25,910 | 249 |
| Cash and Cash Equivalents, Beginning of Period | 39,680 | 20,697 |
| Cash and Cash Equivalents, End of Period | $ 65,590 | $ 20,946 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid for interest | $ 1,020 | $ 1,981 |
| Cash paid for income taxes | $ 6,692 | $ 457 |
| Schedule of Non-cash Investing and Financing Activities: | | |
| Purchase of property and equipment included in accounts payable | $ 151 | $ 67 |
| Principal payments from lessees directly to lenders | $ 46,296 | $ 36,589 |
| Repayment of non-recourse debt to lenders from the sale of operating leases | $ 11,400 | $ - |

(1) See Note 2, "Restatement of Condensed Consolidated Statement of Cash Flows"

See Notes To Unaudited Condensed Consolidated Financial Statements.

ePlus inc. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As of and for the three and nine months ended December 31, 2007 and 2006

1. BASIS OF PRESENTATION

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

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

These interim financial statements should be read in conjunction with our Consolidated Financial Statements and Notes thereto contained in our Annual Report on Form 10-K for the year ended March 31, 2007. Operating results for the interim periods are not necessarily indicative of results for an entire year.

PRINCIPLES OF CONSOLIDATION — The Condensed Consolidated Financial Statements include the accounts of ePlus inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

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

From time to time, when selling product and services, we may enter into contracts that contain multiple elements. Sales of services currently represent less than 10% of our sales. For services that are performed in conjunction with product sales and are completed in our facilities prior to shipment of the product, sales for both the product and services are recognized upon shipment. Sales of services that are performed at customer locations are recorded as sales of product and services when the services are performed. If the service is performed at a customer location in conjunction with a product sale or other service sale, we recognize the sale in accordance with SAB No. 104 and Emerging Issues Task Force ("EITF") 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables." Accordingly, in an arrangement with multiple deliverables, we recognize sales for delivered items only when all of the following criteria are satisfied:

- the delivered item(s) has value to the client on a stand-alone basis;
- there is objective and reliable evidence of the fair value of the undelivered item(s); and
- if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in our control.

We sell certain third-party service contracts and software assurance or subscription products for which we evaluate whether the subsequent sales of such services should be recorded as gross sales or net sales in accordance with the sales recognition criteria outlined in SAB No. 104, EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent" and Financial Accounting Standards Board ("FASB") Technical Bulletin 90-1, "Accounting for Separately

Priced Extended Warranty and Product Contracts." We must determine whether we act as a principal in the transaction and assume the risks and rewards of ownership or if we are simply acting as an agent or broker. Under gross sales recognition, the entire selling price is recorded in sales of product and services and our costs to the third-party service provider or vendor is recorded in cost of sales, product and services on the accompanying Condensed Consolidated Statements of Operations. Under net sales recognition, the cost to the third-party service provider or vendor is recorded as a reduction to sales resulting in net sales equal to the gross profit on the transaction and there is no cost of sales.

In accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs," we record freight billed to our customers as sales of product and services and the related freight costs as a cost of sales, product and services.

Table of Contents

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

We are the lessor in a number of transactions and these transactions are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 13, "Accounting for Leases." Each lease is classified as either a direct financing lease, sales-type lease, or operating lease, as appropriate. Under the direct financing and sales-type lease methods, we record the net investment in leases, which consists of the sum of the minimum lease payments, initial direct costs (direct financing leases only), and unguaranteed residual value (gross investment) less the unearned income. The difference between the gross investment and the cost of the leased equipment for direct finance leases is recorded as unearned income at the inception of the lease. The unearned income is amortized over the life of the lease using the interest method. Under sales-type leases, the difference between the fair value and cost of the leased property plus initial direct costs (net margins) is recorded as revenue at the inception of the lease. For operating leases, rental amounts are accrued on a straight-line basis over the lease term and are recognized as lease revenue. SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," establishes criteria for determining whether a transfer of financial assets in exchange for cash or other consideration should be accounted for as a sale or as a pledge of collateral in a secured borrowing. Certain assignments of direct finance leases we make on a non-recourse basis meet the criteria for surrender of control set forth by SFAS No. 140 and have therefore been treated as sales for financial statement purposes. We assign all rights, title, and interests in a number of our leases to third-party financial institutions without recourse. These assignments are accounted for as sales since we have completed our obligations as of the assignment date, and we retain no ownership interest in the equipment under lease.

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

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

Revenue from hosting arrangements is recognized in accordance with EITF 00-3, "Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware." Our hosting arrangements do not contain a contractual right to take possession of the software. Therefore, our hosting arrangements are not in the scope of Statement of Position 97-2 ("SOP 97-2"), "Software Revenue Recognition" and require that the portion of the fee allocated to the hosting elements be recognized as the service is provided. Currently, the majority of our software revenue is generated through hosting agreements and is included in fee and other income on our Condensed Consolidated Statements of Operations.

Table of Contents

Revenue from sales of our software is recognized in accordance with SOP 97-2, as amended by SOP 98-4, "Deferral of the Effective Date of a Provision of SOP 97-2," and SOP 98-9, "Modification of SOP 97-2 With Respect to Certain Transactions." We recognize revenue when all the following criteria exist: (1) there is persuasive evidence that an arrangement exists; (2) delivery has occurred; (3) no significant obligations by us related to services essential to the functionality of the software remain with regard to implementation; (4) the sales price is determinable; and (5) it is probable that collection will occur. Revenue from sales of our software is included in fee and other income on our Condensed Consolidated Statements of Operations.

At the time of each sale transaction, we make an assessment of the collectibility of the amount due from the customer. Revenue is only recognized at that time if management deems that collection is probable. In making this assessment, we consider customer creditworthiness and assess whether fees are fixed or determinable and free of contingencies or significant uncertainties. If the fee is not fixed or determinable, revenue is recognized only as payments become due from the customer, provided that all other revenue recognition criteria are met. In assessing whether the fee is fixed or determinable, we consider the payment terms of the transaction and our collection experience in similar transactions without making concessions, among other factors. Our software license agreements generally do not include customer acceptance provisions. However, if an arrangement includes an acceptance provision, we record revenue only upon the earlier of (1) receipt of written acceptance from the customer or (2) expiration of the acceptance period.

Our software agreements often include implementation and consulting services that are sold separately under consulting engagement contracts or as part of the software license arrangement. When we determine that such services are not essential to the functionality of the licensed software and qualify as "service transactions" under SOP 97-2, we record revenue separately for the license and service elements of these agreements. Generally, we consider that a service is not essential to the functionality of the software based on various factors, including if the services may be provided by independent third parties experienced in providing such consulting and implementation in coordination with dedicated customer personnel. If an arrangement does not qualify for separate accounting of the license and service elements, then license revenue is recognized together with the consulting services using either the percentage-of-completion or completed-contract method of contract accounting. Contract accounting is also applied to any software agreements that include customer-specific acceptance criteria or where the license payment is tied to the performance of consulting services. Under the percentage-of-completion method, we may estimate the stage of completion of contracts with fixed or "not to exceed" fees based on hours or costs incurred to date as compared with estimated total project hours or costs at completion. If we do not have a sufficient basis to measure progress towards completion, revenue is recognized upon completion of the contract. When total cost estimates exceed revenues, we accrue for the estimated losses immediately. The use of the percentage-of-completion method of accounting requires significant judgment relative to estimating total contract costs, including assumptions relative to the length of time to complete the project, the nature and complexity of the work to be performed, and anticipated changes in salaries and other costs. When adjustments in estimated contract costs are determined, such revisions may have the effect of adjusting, in the current period, the earnings applicable to performance in prior periods.

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

Table of Contents

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

When consulting qualifies for separate accounting, consulting revenues under time and materials billing arrangements are recognized as the services are performed. Consulting revenues under fixed-price contracts are generally recognized using the percentage-of-completion method. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is sufficiently resolved. Consulting revenues are classified as fee and other income on our Condensed Consolidated Statements of Operations.

Training services include on-site training, classroom training and computer-based training and assessment. Training revenue is recognized as the related training services are provided and is included in fee and other income on our Condensed Consolidated Statements of Operations.

Amounts charged for our Procure+ service are recognized as services are rendered. Amounts charged for the Manage+ service are recognized on a straight-line basis over the contractual period for which the services are provided. In addition, other sources of revenue are derived from: (1) income from events that occur after the initial sale of a financial asset; (2) remarketing fees; (3) brokerage fees earned for the placement of financing transactions; (4) agent fees received from various manufacturers in the IT reseller business unit; (5) settlement fees related to disputes or litigation; and (6) interest and other miscellaneous income. These revenues are included in fee and other income on our Condensed Consolidated Statements of Operations.

RESIDUALS — Residual values, representing the estimated value of equipment at the termination of a lease, are recorded in our Condensed Consolidated Financial Statements at the inception of each sales-type or direct financing lease as amounts estimated by management based upon its experience and judgment. Unguaranteed residual values for sales-type and direct financing leases are recorded at their net present value and the unearned income is amortized over the life of the lease using the interest method. The residual values for operating leases are included in the leased equipment's net book value.

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

RESERVES FOR CREDIT LOSSES — The reserves for credit losses (the "reserve") is maintained at a level believed by management to be adequate to absorb potential losses inherent in our lease and accounts receivable portfolio. Management's determination of the adequacy of the reserve is based on an evaluation of historical credit loss experience, current economic conditions, volume, growth, the composition of the lease portfolio, and other relevant factors. The reserve is increased by provisions for potential credit losses charged against income. Accounts are either written off or written down when the loss is both probable and determinable, after giving consideration to the customer's financial condition, the value of the underlying collateral and funding status (i.e., discounted on a non-recourse or recourse basis).

CASH AND CASH EQUIVALENTS — Cash and cash equivalents include funds in operating accounts as well as money market funds.

INVENTORIES — Inventories are stated at the lower of cost (weighted average basis) or market.

PROPERTY AND EQUIPMENT — Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, which range from three to ten years.

Table of Contents

CAPITALIZATION OF COSTS OF SOFTWARE FOR INTERNAL USE — We have capitalized certain costs for the development of internal use software under the guidelines of SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Software capitalized for internal use was $761 thousand and $178 thousand during the nine months ended December 31, 2007 and December 31, 2006, respectively, which is included in the accompanying Condensed Consolidated Balance Sheets as a component of property and equipment—net. We had capitalized costs, net of amortization, of approximately $1.2 million at December 31, 2007 and $650 thousand at March 31, 2007.

CAPITALIZATION OF COSTS OF SOFTWARE TO BE MADE AVAILABLE TO CUSTOMERS — In accordance with SFAS No. 86, "Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," software development costs are expensed as incurred until technological feasibility has been established. At such time such costs are capitalized until the product is made available for release to customers. For the nine months ended December 31, 2007, there was no such costs capitalized, while for the nine months ended December 31, 2006, $59 thousand were capitalized for software to be made available to customers. We had $619 thousand and $760 thousand of capitalized costs, net of amortization, at December 31, 2007 and March 31, 2007, respectively.

INTANGIBLE ASSETS — In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," we perform an impairment test for goodwill at September 30th of each year and follow the two-step process prescribed in SFAS No. 142 to test our goodwill for impairment under the transitional goodwill impairment test. The first step is to screen for potential impairment, while the second step measures the amount of the impairment, if any.

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

FAIR VALUE OF FINANCIAL INSTRUMENTS — The carrying value of our financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other liabilities, approximates fair value due to their short maturities. The carrying amount of our non-recourse and recourse notes payable approximates its fair value. We determined the fair value of notes payable by applying the average portfolio debt rate and applying such rate to future cash flows of the respective financial instruments. The estimated fair value of our recourse and non-recourse notes payable at December 31, 2007 and March 31, 2007 was $104.2 million and $153.4 million, respectively, compared to a carrying amount of $104.7 million and $153.1 million, respectively.

TREASURY STOCK — We account for treasury stock under the cost method and include treasury stock as a component of stockholders' equity.

INCOME TAXES — Deferred income taxes are accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred income tax assets and liabilities are determined based on the temporary differences between the financial statement reporting and tax bases of assets and liabilities, using tax rates currently in effect. Future tax benefits, such as net operating loss carryforwards, are recognized to the extent that realization of these benefits is considered to be more likely than not. In addition, on April 1, 2007, we adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109" ("FIN 48"). Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. In accordance with our accounting policy, we recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. This policy did not change as a result of the adoption of FIN 48. We recorded a cumulative effect adjustment to reduce our fiscal 2008 balance of beginning retained earnings by $491 thousand in our Condensed Consolidated Financial Statements.

Table of Contents

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

COMPREHENSIVE INCOME — Comprehensive income consists of net income and foreign currency translation adjustments. For the nine months ended December 31, 2007, other comprehensive income was $308 thousand and net income was $13.6 million. This resulted in total comprehensive income of $13.9 million for the nine months ended December 31, 2007. For the nine months ended December 31, 2006, other comprehensive income was approximately $2.0 thousand and net income was $15.4 million. This resulted in total comprehensive income of $15.4 million for the nine months ended December 31, 2006.

EARNINGS PER SHARE — Earnings per share ("EPS") have been calculated in accordance with SFAS No. 128, "Earnings per Share." In accordance with SFAS No. 128, basic EPS amounts were calculated based on weighted average shares outstanding of 8,231,741 for the three and nine months ended December 31, 2007 and 8,231,741 and 8,222,700, for the three and nine months ended December 31, 2006, respectively. Diluted EPS amounts were calculated based on weighted average shares outstanding and potentially dilutive common stock equivalents of 8,422,256 and 8,375,412 for the three and nine months ended December 31, 2007, respectively, and 8,456,627 and 8,577,999 for the three and nine months ended December 31, 2006, respectively. Additional shares included in the diluted EPS calculations are attributable to incremental shares issuable upon the assumed exercise of stock options and other common stock equivalents.

STOCK-BASED COMPENSATION — On April 1, 2006, we adopted SFAS No. 123 (revised 2004), "Share-Based Payment," or SFAS No. 123R. SFAS No. 123R replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and subsequently issued stock option related guidance. We elected the modified-prospective transition method. Under the modified-prospective method, we must recognize compensation expense for all awards subsequent to adopting the standard and for the unvested portion of previously granted awards outstanding upon adoption. We have recognized compensation expense equal to the fair values for the unvested portion of share-based awards at April 1, 2006 over the remaining period of service, as well as compensation expense for those share-based awards granted or modified on or after April 1, 2006 over the vesting period based on the grant-date fair values using the straight-line method. For those awards granted prior to the date of adoption, compensation expense is recognized on an accelerated basis based on the grant-date fair value amount as calculated for pro forma purposes under SFAS No. 123.

RECENT ACCOUNTING PRONOUNCEMENTS — In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP and expands disclosures about fair value measurements. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued Staff Position No. FAS 157-2, "Effective Dates of FASB Statement No. 157," which defers the effective date of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. We are in the process of evaluating the impact, if any, SFAS No. 157 will have on our financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value ption for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits an entity, at specified election dates, to choose to measure certain financial instruments and other items at fair value. The objective of SFAS No. 159 is to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for accounting periods beginning after November 15, 2007. We are in the process of evaluating the impact, if any, SFAS No. 159 will have on our financial condition and results of operations.

Table of Contents

## 2. RESTATEMENT OF CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

During the nine month period ended December 31, 2007, we sold operating leases to non-lessee third parties. A portion of the leases sold included operating leases which were funded with non-recourse debt with the same lender to whom we sold the leases. The purchase price consisted of proceeds of $893 thousand and a direct reduction of the related non-recourse debt of $11,400 thousand. The previously-issued Condensed Consolidated Statement of Cash Flows for the nine months ended December 31, 2007 inappropriately presented the net book value of all such operating leases sold in cash flows from operating activities in loss (gain) on disposal of operating lease equipment and the elimination of debt was inappropriately presented in cash flows from financing activities as a repayment of non-recourse debt. However, the only cash transaction was the proceeds received of $893 thousand, therefore, the direct reduction of the non-recourse debt by the lender should be reflected in the schedule of non-cash investing and financing activities. The Company also retained a residual value in a portion of the leased equipment that was sold of $653 thousand which was inappropriately included in loss (gain) on sale of operating leases versus in changes in other assets. Consequently, we have restated the accompanying Condensed Consolidated Statement of Cash Flows for the nine months ended December 31, 2007. This restatement does not impact the Company's previously reported net increase in cash and cash equivalents.

The Condensed Consolidated Statement of Cash Flows has been restated as follows:

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Nine Months Ended December 31, | |
|---|---|---|
| | 2007 As Previously Reported | 2007 As Restated |
| | (in thousands) | |
| Cash Flows From Operating Activities: | | |
| Gain on sale of operating leases | $ - | $ (403) |
| Loss (gain) on disposal of operating lease equipment | 11,463 | (1,078) |
| Changes in other assets | (2,892) | (2,241) |
| Net cash provided by operating activities | 36,745 | 24,452 |
| | | |
| Cash Flows From Investing Activities: | | |
| Proceeds from sale of operating leases | - | 893 |
| Net cash used in investing activities | (5,192) | (4,299) |
| | | |
| Cash Flows From Financing Activities: | | |
| Repayment of non-recourse debt | (32,891) | (21,491) |
| Net cash provided by (used in) financing activities | (5,951) | 5,449 |
| | | |
| Schedule of Non-cash Investing and Financing Activities: | | |
| Repayment of non-recourse debt to lender from sales of operating leases | - | 11,400 |

## 3. INVESTMENT IN LEASES AND LEASED EQUIPMENT—NET

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

| | As of | |
|---|---|---|
| | December 31, 2007 | March 31, 2007 |
| | (in thousands) | |
| Investment in direct financing and sales-type leases—net | $ 125,519 | $ 158,471 |
| Investment in operating lease equipment—net | 35,555 | 58,699 |
| | $ 161,074 | $ 217,170 |

15

Table of Contents

INVESTMENT IN DIRECT FINANCING AND SALES-TYPE LEASES—NET

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

| | As of | |
|---|---|---|
| | December 31, 2007 | March 31, 2007 |
| | (in thousands) | |
| Minimum lease payments | $ 118,792 | $ 154,349 |
| Estimated unguaranteed residual value (1) | 18,987 | 22,375 |
| Initial direct costs, net of amortization (2) | 1,231 | 1,659 |
| Less: Unearned lease income | (12,231) | (18,271) |
| Reserve for credit losses | (1,260) | (1,641) |
| Investment in direct financing and sales-type leases—net | $ 125,519 | $ 158,471 |

(1) Includes estimated unguaranteed residual values of $2,010 thousand and $1,191 thousand as of December 31, 2007 and March 31, 2007, respectively, for direct financing SFAS No. 140 leases.
(2) Initial direct costs are shown net of amortization of $1,496 thousand and $1,409 thousand as of December 31, 2007 and March 31, 2007, respectively.

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

INVESTMENT IN OPERATING LEASE EQUIPMENT—NET

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

| | As of | |
|---|---|---|
| | December 31, 2007 | March 31, 2007 |
| | (in thousands) | |
| Cost of equipment under operating leases | $ 67,219 | $ 93,804 |
| Less: Accumulated depreciation and amortization | (31,664) | (35,105) |
| Investment in operating lease equipment—net | $ 35,555 | $ 58,699 |

For the nine months ended December 31, 2007, we sold portions of our lease portfolio. The sales were reflected in our financial statements as sales of leased equipment totaling approximately $40.5 million and cost of sales, leased equipment of $38.9 million. There was a reduction of investment in leases and leased equipment – net of $38.9 million and non-recourse notes payable of $12.4 million.

4. RESERVES FOR CREDIT LOSSES

As of March 31, 2007 and December 31, 2007, our activity in our reserves for credit losses is as follows (in thousands):

| | Accounts Receivable | Lease-Related Assets | Total |
|---|---|---|---|
| Balance April 1, 2006 | $ 2,060 | $ 2,913 | $ 4,973 |

| | | | |
|---|---|---|---|
| Provision for Bad Debts | 460 | (1,027) | (567) |
| Recoveries | 23 | - | 23 |
| Write-offs and other | (483) | (245) | (728) |
| Balance March 31, 2007 | 2,060 | 1,641 | 3,701 |
| | | | |
| Provision for Bad Debts | (4) | (341) | (345) |
| Recoveries | 40 | - | 40 |
| Write-offs and other | (320) | (40) | (360) |
| Balance December 31, 2007 | $ 1,776 | $ 1,260 | $ 3,036 |

Table of Contents

5. RECOURSE AND NON-RECOURSE NOTES PAYABLE

Recourse and non-recourse obligations consist of the following:

| | As of<br>December 31, 2007 | (in thousands)<br>March 31, 2007 |
|---|---|---|
| National City Bank – Recourse credit facility of $35,000,000 expiring on July 21, 2009. At our option, the carrying interest rate is either LIBOR rate plus 175–250 basis points, or the Alternate Base Rate of the higher of prime, or federal funds rate plus 50 basis points, plus 0-25 basis points of margin. The interest rate at March 31, 2007 was 6.875%. | $ - | $ 5,000 |
| Total recourse obligations | $ - | $ 5,000 |
| Non-recourse equipment notes secured by related investments in leases with interest rates ranging from 4.90% to 7.75% for the nine months ended December 31, 2007 and 3.05% to 9.25% for year ended March 31, 2007. | $ 104,741 | $ 148,136 |

During the nine months ended December 31, 2007, we sold portions of our lease portfolio. The sales were reflected in our financial statements as sales of leased equipment totaling approximately $40.5 million and cost of sales, leased equipment of $38.9 million. There was a reduction of investment in leases and leased equipment – net of $38.9 million and non-recourse notes payable of $12.4 million.

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

There are two components of the GE Commercial Distribution Finance Corporation (“GECDF”) credit facility: (1) a floor plan component and (2) an accounts receivable component. Under the floor plan component, our outstanding balances were $51.6 million and $55.5 million as of December 31, 2007 and March 31, 2007, respectively. Under the accounts receivable component, we did not have any outstanding balance as of December 31, 2007 and March 31, 2007. As of December 31, 2007, the facility agreement had an aggregate limit of the two components of $125 million, and the accounts receivable component had a sub-limit of $30 million, which bears interest at prime less 0.5%, or 7.75%. Effective October 29, 2007, the facility with GECDF was amended to increase the aggregate limit to $125 million from $100 million with a sub-limit on the accounts receivable component of $30 million. The temporary overline periods in the previous agreement were eliminated. Availability under the GECDF facility may be limited by the asset value of equipment we purchase and may be further limited by certain covenants and terms and conditions of the facility. These covenants include but are not limited to a minimum total tangible net worth and subordinated debt, and maximum debt to tangible net worth ratio of ePlus Technology, inc. We were in compliance with these covenants as of December 31, 2007. Either party may terminate with 90 days’ advance notice.

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

Borrowings under our $35 million line of credit from National City Bank are subject to and in compliance with certain covenants regarding minimum consolidated tangible net worth, maximum recourse debt to net worth ratio, cash flow coverage, and minimum interest expense coverage ratio. We are in compliance with or have received amendments extending these covenants as of December 31, 2007. The borrowings are secured by our assets such as leases, receivables, inventory, and equipment. Borrowings are limited to our collateral base, consisting of equipment, lease receivables, and other current assets, up to a maximum of $35 million. In addition, the credit agreement restricts, and under some circumstances prohibits, the payment of dividends.

Table of Contents

The National City Bank facility requires the delivery of our audited and unaudited financial statements, and pro-forma financial projections, by certain dates. We have not delivered the following documents as required by Section 5.1 of the facility: quarterly Condensed Consolidated Unaudited Financial Statements for the quarter ended December 31, 2007 included herein. We entered into the following amendments which have extended the delivery date requirements for these documents: a First Amendment dated July 11, 2006, a Second Amendment dated July 28, 2006, a third Amendment dated August 30, 2006, a Fourth Amendment dated September 27, 2006, a Fifth Amendment dated November 15, 2006, a Sixth Amendment dated January 11, 2007, a Seventh Amendment dated March 12, 2007, an Eighth Amendment dated June 27, 2007, a Ninth Amendment dated August 22, 2007, a Tenth Amendment dated November 29, 2007 and an Eleventh Amendment dated February 29, 2008. As a result of the amendments, the agents agreed, among other things, to extend the delivery date requirements of the documents above through June 30, 2008.

We believe we will receive additional extensions from our lender, if needed, regarding our requirement to provide financial statements as described above through the date of delivery of the documents. However, we cannot guarantee that we will receive additional extensions.

## 6. RELATED PARTY TRANSACTIONS

During the three months ended December 31, 2007, we leased approximately 55,880 square feet for use as our principal headquarters from Norton Building 1, LLC. Norton Building 1, LLC is a limited liability company owned in part by Mr. Norton's spouse and in part in trust for his children. As of May 31, 2007, Mr. Norton, our President and CEO, has no managerial or executive role in Norton Building 1, LLC. The lease was approved by the Board of Directors prior to its commencement, and viewed by the Board as being at or below comparable market rents, and ePlus has the right to terminate up to 40% of the leased premises for no penalty, with six months' notice. During the three months ended December 31, 2007 and December 31, 2006, we paid rent in the amount of $274 thousand and $238 thousand, respectively. During the nine months ended December 31, 2007 and December 31, 2006, we paid rent in the amount of $798 thousand and $710 thousand, respectively.

## 7. COMMITMENTS AND CONTINGENCIES

### Litigation

We have been involved in several matters, which are described below, arising from four separate installment sales to a customer named Cyberco Holdings, Inc. ("Cyberco"), which was perpetrating a fraud related to installment sales that were assigned to various lenders and were non-recourse to us.

On November 3, 2006, Banc of America Leasing and Capital, LLC ("BoA") filed a lawsuit against ePlus inc., seeking to enforce a guaranty in which ePlus inc. guaranteed ePlus Group's obligations to BoA relating to the Cyberco transaction. In June 2007 ePlus Group paid to BoA the full amount of a judgment against ePlus Group in favor of BoA. The suit against ePlus inc. seeks attorneys' fees BoA incurred in ePlus Group's appeal of BoA's suit against ePlus Group referenced above, expenses that BoA incurred in a bankruptcy adversary proceeding relating to Cyberco, attorneys' fees incurred by BoA in defending a pending suit by ePlus Group against BoA, and any other costs or fees relating to any of the described matters. The trial has been stayed pending the resolution of litigation in California state court in which ePlus is the plaintiff in a suit against BoA. We are vigorously defending the suit against us by BoA. We cannot predict the outcome of this suit. We do not believe a loss is probable; therefore, we have not accrued for this matter.

In a bankruptcy adversary proceeding, which was filed on December 7, 2006, Cyberco's bankruptcy trustee sought approximately $775 thousand as alleged preferential transfers. In January 2008, we entered into a settlement agreement with the trustee and agreed to pay to the trustee $95 thousand, which we recorded in the year ended March

31, 2007.

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

Table of Contents

We are also engaged in other ordinary and routine litigation incidental to our business. While we cannot predict the outcome of these various legal proceedings, management believes that a loss is not probable and no amount has been accrued for these matters.

Regulatory and Other Legal Matters

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

We are currently engaged in a dispute with the government of the District of Columbia ("DC") regarding personal property taxes on property we financed for our customers. DC is seeking approximately $508 thousand plus interest and penalties, relating to property we financed for our customers. We believe the tax is owed by our customers, and are seeking resolution in DC's Office of Administrative Hearings. We cannot predict the outcome of this matter. We do not believe a loss is probable; therefore, we have not accrued for this matter.

8. EARNINGS PER SHARE

Earnings per share ("EPS") have been calculated in accordance with SFAS No. 128, "Earnings per Share" ("SFAS No. 128"). In accordance with SFAS No. 128, basic EPS amounts are calculated based on weighted average shares outstanding of 8,231,741 for the three and nine months ended December 31, 2007 and 8,231,741 and 8,222,700 for the three and nine months ended December 31, 2006, respectively. Diluted EPS amounts are calculated based on weighted average shares outstanding and potentially dilutive common stock equivalents of 8,422,256 and 8,375,412 for the three and nine months ended December 31, 2007 and 8,456,627 and 8,577,999 for the three and nine months ended December 31, 2006, respectively. Additional shares included in the diluted EPS calculations are attributable to incremental shares issuable upon the assumed exercise of stock options and other common stock equivalents.

The following table provides a reconciliation of the numerators and denominators used to calculate basic and diluted net income per common share as disclosed in our Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2006 and December 31, 2007 (in thousands, except per share data).

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Net income available to common shareholders—basic and diluted | $ 3,751 | $ 12,404 | $ 13,615 | $ 15,446 |
| Weighted average shares outstanding—basic | 8,232 | 8,232 | 8,232 | 8,223 |
| In-the-money options exercisable under stock compensation plans | 191 | 225 | 143 | 355 |
| Weighted average shares outstanding—diluted | 8,422 | 8,457 | 8,375 | 8,578 |
| Income per common share: | | | | |
| Basic | $ 0.45 | $ 1.51 | $ 1.65 | $ 1.88 |
| Diluted | $ 0.45 | $ 1.47 | $ 1.63 | $ 1.80 |

19

Table of Contents

Unexercised employee stock options to purchase 390,257 shares of our common stock were not included in the computations of diluted EPS for both the three and nine months ended December 31, 2007. Unexercised employee stock options to purchase 890,907 and 844,707 shares of our common stock were not included in the computations of diluted EPS for the three and nine months ended December 31, 2006, respectively. These shares were excluded because the options' exercise prices were greater than the average market price of our common stock during the applicable periods.

## 9. STOCK REPURCHASE

On November 17, 2004, a stock purchase program was authorized by our Board. This program authorized the repurchase of up to 3,000,000 shares of our outstanding common stock over a period of time ending no later than November 17, 2005 and was limited to a cumulative purchase amount of $7.5 million. On March 2, 2005, our Board approved an increase, from $7.5 million to $12.5 million, for the maximum total cost of shares that could be purchased, which expired November 17, 2005. On November 18, 2005, the Board authorized a new stock repurchase program of up to 3,000,000 shares with a cumulative purchase limit of $12.5 million, which expired on November 17, 2006.

During the nine months ended December 31, 2007, we did not repurchase any shares of our outstanding common stock. During the nine months ended December 31, 2006, we repurchased 209,000 shares of our outstanding common stock for a total purchase price of approximately $2.9 million. Since the inception of our initial repurchase program on September 20, 2001, as of December 31, 2007, we had repurchased 2,978,990 shares of our outstanding common stock at an average cost of $11.04 per share for a total purchase price of $32.9 million.

## 10. STOCK-BASED COMPENSATION

### Contributory 401(k) Profit Sharing Plan

We provide our employees with a contributory 401(k) profit sharing plan. To be eligible to participate in the plan, employees must be at least 21 years of age and have completed a minimum service requirement. Employer contribution percentages are determined by us and are discretionary each year. The employer contributions vest over a four-year period. For the three months ended December 31, 2007 and 2006, our expense for the plan was approximately $79 thousand and $51 thousand, respectively. Our expense for the plan for the nine months ended December 31, 2007 and December 31, 2006 were $242 thousand and $238 thousand, respectively.

### Adoption of SFAS No. 123R

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment," or SFAS No. 123R. SFAS No. 123R replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB 25, "Accounting for Stock Issued to Employees," and subsequently issued stock option related guidance. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. Entities are required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide services in exchange for the award (usually the vesting period). The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

On April 1, 2006, we adopted SFAS No. 123R using the modified prospective transition method. We have recognized compensation cost equal to the fair values for the unvested portion of share-based awards at April 1, 2006 over the remaining period of service, as well as compensation cost expense for those share-based awards granted or modified on or after April 1, 2006 over the vesting period based on the grant-date fair values using the straight-line method. The fair values were estimated using the Black-Scholes option pricing model.

Table of Contents

Stock Option Plans

We issued only incentive and non-qualified stock option awards and, except as noted below, each grant was issued under one of the following five plans: (1) the 1996 Stock Incentive Plan (the “1996 SIP”), (2) Amendment and Restatement of the 1996 Stock Incentive Plan (the “Amended SIP”) (collectively the “1996 Plans”), (3) the 1998 Long-Term Incentive Plan (the “1998 LTIP”), (4) Amendment and Restatement of the 1998 Stock Incentive Plan (2001) (the “Amended LTIP (2001)”) or (5) Amendment and Restatement of the 1998 Stock Incentive Plan (2003) (the “Amended LTIP (2003)”). Sections of note are detailed below. All the stock option plans require the use of the previous trading day's closing price when the grant date falls on a date the stock was not traded.

In addition, at the IPO, there were 245,000 options issued that were not part of any plan, but issued under various employment agreements.

1996 Stock Incentive Plan

The allowable number of outstanding shares under this plan was 155,000. On September 1, 1996, the Board adopted this plan, and it was effective on November 8, 1996 when the SEC declared our Registration Statement on Form S-1 effective in connection with our IPO on November 20, 1996. The 1996 SIP is comprised of an Incentive Stock Option Plan, a Nonqualified Stock Option Plan, and an Outside Director Stock Option Plan. Each of the components of the 1996 Plans provided that options would only be granted after execution of an Option Agreement. Except for the number of options awarded to directors, the salient provisions of the 1996 SIP are identical to the Amended SIP, which is described below.

With regard to director options, the 1996 Outside Director Stock Option Plan provided for 10,000 options to be granted to each non-employee director upon completion of the IPO, and 5,000 options to be granted to each non-employee director on the anniversary of each full year of his or her service as a director of ePlus. As with the other components of the 1996 Plans, the director options would be granted only after execution of an Option Agreement.

Amendment and Restatement of the 1996 Stock Incentive Plan

The 1996 SIP was amended via an Amendment and Restatement of the 1996 Stock Incentive Plan. The primary purpose of the amendment was to increase the aggregate number of shares allocated to the plan by making the shares available a percentage (20%) of total shares outstanding rather than a fixed number. The Amended SIP also modified the annual grants to directors from 5,000 options to 10,000 options.

The Amended SIP also provided for an employee stock purchase plan, and permitted the Board to establish other restricted stock and performance-based stock awards and programs. The Amended SIP was adopted by the Board and became effective on May 14, 1997, subject to approval at the annual shareholders meeting that fall. The Amended SIP was adopted by shareholders at the annual meeting on September 30, 1997.

1998 Long-Term Incentive Plan

The 1998 LTIP was adopted by the Board on July 28, 1998, which is its effective date, and approved by the shareholders on September 16, 1998. The allowable number of shares under the 1998 LTIP is 20% of the outstanding shares, less shares previously granted and shares purchased through our employee stock purchase program. The 1998 LTIP shares many characteristics of the earlier plans. It continues to specify that options shall be priced at not less than fair market value. The 1998 LTIP consolidated the preexisting plans and made the Compensation Committee of the Board responsible for its administration. In addition, the 1998 LTIP eliminated the language of the 1996 Plans that “options shall be granted only after execution of an Option Agreement.” Thus, while the 1998 LTIP does require that grants be evidenced in writing, the writing is not a condition precedent to the grant of the award.

Another change to note is the modification of the LTIP as it relates to options awarded to directors. Under the 1998 LTIP, instead of being awarded on the anniversary of the director’s service, the options are to be automatically awarded the day after the annual shareholders meeting to all directors in service as of that day. No automatic annual grants may be awarded under the LTIP after September 1, 2006. The LTIP also permits for discretionary option awards to directors.

Table of Contents

Amended and Restated 1998 Long-Term Incentive Plan

Minor amendments were made to the 1998 LTIP on April 1, April 17 and April 30, 2001. The amendments change the name of the plan from the 1998 Long-Term Incentive Plan to the Amended and Restated 1998 Long-Term Incentive Plan. In addition, provisions were added "to allow the Compensation Committee to delegate to a single board member the authority to make awards to non-Section 16 insiders, as a matter of convenience," and to provide that "no option granted under the Plan may be exercisable for more than ten years from the date of its grant."

The Amended LTIP (2001) was amended on July 15, 2003 by the Board and approved by the stockholders on September 18, 2003. Primarily, the amendment modified the aggregate number of shares available under the plan to a fixed number (3,000,000). Although the language varies somewhat from earlier plans, it permits the Board or Compensation Committee to delegate authority to a committee of one or more directors who are also officers of the corporation to award options under certain conditions. The Amended LTIP (2003) replaced all the prior plans, is our current plan, and covers option grants for employees, executives and outside directors.

As of December 31, 2007, a total of 2,276,944 shares of common stock have been reserved for issuance upon exercise of options granted under the Amended LTIP (2003).

Stock-Based Compensation Expense

Prior to the adoption of SFAS No. 123R, we accounted for stock-based compensation expense under APB 25 and related interpretations and disclosed certain pro forma net income and EPS information as if we had applied the fair value recognition provisions of SFAS No. 123 as amended by SFAS No. 148 "Accounting for Stock-Based Compensation — Transition and Disclosure." Accordingly, we measured the compensation expense based upon intrinsic value on the measurement date, calculated as the difference between the fair value of the common stock and the relevant exercise price.

In accordance with SFAS No. 123R, we recognized $31 thousand and $1.6 million of stock-based compensation expense for the three and nine months ended December 31, 2007, respectively. Messrs. Norton, Bowen, Parkhurst and Mencarini entered into separate stock option cancellation agreements pursuant to which options to purchase 300,000 options, 50,000 options, 50,000 options, and 50,000 options, respectively, were cancelled. On May 11, 2007, these 450,000 options were cancelled which resulted in the immediate recognition of the remaining nonvested share-based compensation expense of $1.5 million. We recognized $209 thousand and $719 thousand of stock-based compensation expense during the three and nine months ended December 31, 2006. As of December 31, 2007, there was $88 thousand of unrecognized compensation expense related to nonvested options. This expense is expected to be fully recognized over the next six months.

Stock Option Activity

During the three and nine months ended December 31, 2007 and 2006, there were no stock options granted to employees.

Expected life of the option is the period of time that we expect the options granted to be outstanding. Expected stock price volatility is based on historical volatility of our stock. Expected dividend yield is zero as we do not expect to pay any dividends, nor have we historically paid any dividends. Risk-free interest rate is the five-year nominal constant maturity Treasury rate on the date of the award.

Table of Contents

A summary of stock option activity during the nine months ended December 31, 2007 is as follows:

| | Number of Shares | Exercise Price Range | Weighted Average Exercise Price | Weighted Average Contractual Life Remaining | Aggregate Intrinsic Value |
|---|---|---|---|---|---|
| Outstanding, April 1, 2007 | 1,788,613 | $ 6.23 - $17.38 | $ 10.20 | | |
| Options granted | - | - | - | | |
| Options exercised | - | - | - | | |
| Options forfeited | (494,450) | $ 10.84 - $13.25 | $ 11.13 | | |
| Outstanding, December 31, 2007 | 1,294,163 | $ 6.23 - $17.38 | $ 9.85 | 2.9 | $ 1,717,224 |
| Vested or expected to vest at December 31, 2007 | 1,294,163 | | $ 9.85 | 2.9 | $ 1,717,224 |
| Exercisable, December 31, 2007 | 1,274,163 | | $ 9.79 | 2.8 | $ 1,717,224 |

Additional information regarding stock options outstanding as of December 31, 2007 is as follows:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Options Outstanding | Weighted Avg. Exercise Price per Share | Weighted Avg. Contractual Life Remaining | Options Exercisable | Weighted Avg. Exercise Price per Share |
| $ 6.23 - $9.00 | 863,906 | $ 7.70 | 2.4 | 863,906 | $ 7.70 |
| $ 9.01 - $13.50 | 219,750 | $ 11.51 | 4.4 | 199,750 | $ 11.35 |
| $ 13.51 - $17.38 | 210,507 | $ 16.90 | 3.2 | 210,507 | $ 16.90 |
| $ 6.23 - $17.38 | 1,294,163 | $ 9.85 | 2.9 | 1,274,163 | $ 9.79 |

We issue shares from our authorized but unissued common stock to satisfy stock option exercises.

A summary of nonvested option activity is presented below:

| | Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Nonvested at April 1, 2007 | 302,000 | $ 7.59 |

| | | | |
|---|---|---|---|
| Granted | - | | |
| Vested | (102,000) | | 7.57 |
| Forfeited | (180,000) | | 7.76 |
| Nonvested at December 31, 2007 | 20,000 | $ | 6.13 |

Table of Contents

## 11. INCOME TAXES

On April 1, 2007, we adopted FIN 48 and recognized liabilities for uncertain tax positions based on the two-step approach prescribed in the interpretation. The first step is to evaluate each uncertain tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. For tax positions that are more likely than not of being sustained upon audit, the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50 percent likely of being realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible outcomes.

As a result of the implementation of FIN 48, we recorded a $735 thousand increase in the gross liability for unrecognized tax positions, comprised of $460 thousand of unrecognized tax benefits and $275 thousand of interest and penalties, partially offset by federal and state tax benefits of $244 thousand. The net effect of $491 thousand was recorded as a decrease to the opening balance of retained earnings on April 1, 2007. As of April 1, 2007, we had $712 thousand of total gross unrecognized tax benefits. Included in the retained earnings balance at April 1, 2007, were $460 thousand of tax benefits that, if recognized, would affect the effective tax rate. As of April 1, 2007, we had accrued interest and penalties of $306 thousand.

We file income tax returns, including returns for our subsidiaries, with federal, state, local, and foreign jurisdictions. We are currently under audit by the Internal Revenue Service (“IRS”) for fiscal years 2004, 2005 and 2006. We have recorded a liability associated with preliminary results of the audit of $252 thousand in fiscal year 2007. We expect the audit to close during the fourth quarter of fiscal year 2009. Tax years 2003, 2004, 2005 and 2006 are subject to examination by state taxing authorities. In addition, various state and local income tax returns are also under examination by taxing authorities. We do not believe that the outcome of any examination will have a material impact on our financial statements.

There were no increases to gross unrecognized tax benefits during the nine months ended December 31, 2007. We expect it is reasonably possible that the amount of unrecognized tax benefits will decrease by approximately $250 thousand in the next 12 months due to the payment of the current IRS audit assessment.

In accordance with our accounting policy, we recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. This policy did not change as a result of the adoption of FIN 48. As of April 1, 2007, the Company had accrued interest and penalties of $306 thousand. Our Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2007 include additional interest of $13 thousand and $44 thousand, respectively.

## 12. SEGMENT REPORTING

We manage our business segments on the basis of the products and services offered. Our reportable segments consist of our traditional financing business unit and technology sales business unit. The financing business unit offers lease-financing solutions to corporations and governmental entities nationwide. The technology sales business unit sells information technology equipment and software and related services primarily to corporate customers on a nationwide basis. The technology sales business unit also provides internet-based business-to-business supply chain management solutions for information technology and other operating resources. We evaluate segment performance on the basis of segment net earnings.

Both segments utilize our proprietary software and services throughout the organization. Sales and services and related costs of e-procurement software are included in the technology sales business unit. Income related to services generated by our proprietary software and services are included in the technology sales business unit.

The accounting policies of the segments are the same as those described in Note 1, “Basis of Presentation.” Corporate overhead expenses are allocated on the basis of employee headcount.

Table of Contents

| | Three months ended December 31, 2007 | | | Three months ended December 31, 2006 | | |
|---|---|---|---|---|---|---|
| | Financing Business Unit | Technology Sales Business Unit | Total | Financing Business Unit | Technology Sales Business Unit | Total |
| Sales of product and services | $ 1,291 | $ 167,103 | $ 168,394 | $ 1,012 | $ 182,265 | $ 183,277 |
| Sales of leased equipment | 13,740 | - | 13,740 | 2,557 | - | 2,557 |
| Lease revenues | 12,194 | - | 12,194 | 16,000 | - | 16,000 |
| Fee and other income | 253 | 3,858 | 4,111 | 341 | 3,203 | 3,544 |
| Patent settlement income | - | - | - | - | 17,500 | 17,500 |
| Total revenues | 27,478 | 170,961 | 198,439 | 19,910 | 202,968 | 222,878 |
| Cost of sales | 14,465 | 147,645 | 162,110 | 3,172 | 160,591 | 163,763 |
| Direct lease costs | 4,460 | - | 4,460 | 5,574 | - | 5,574 |
| Selling, general and administrative expenses | 3,338 | 19,970 | 23,308 | 4,540 | 24,702 | 29,242 |
| Segment earnings | 5,215 | 3,346 | 8,561 | 6,624 | 17,675 | 24,299 |
| Interest and financing costs | 1,795 | 23 | 1,818 | 2,768 | 71 | 2,839 |
| Earnings before income taxes | $ 3,420 | $ 3,323 | $ 6,743 | $ 3,856 | $ 17,604 | $ 21,460 |
| Assets | $ 244,825 | $ 145,342 | $ 390,167 | $ 294,419 | $ 148,078 | $ 442,497 |

| | Nine months ended December 31, 2007 | | | Nine months ended December 31, 2006 | | |
|---|---|---|---|---|---|---|
| | Financing Business Unit | Technology Sales Business Unit | Total | Financing Business Unit | Technology Sales Business Unit | Total |
| Sales of product and services | $ 3,057 | $ 561,571 | $ 564,628 | $ 2,864 | $ 536,059 | $ 538,923 |
| Sales of leased equipment | 40,544 | - | 40,544 | 4,376 | - | 4,376 |
| Lease revenues | 43,810 | - | 43,810 | 40,853 | - | 40,853 |
| Fee and other income | 1,272 | 11,852 | 13,124 | 903 | 8,581 | 9,484 |
| Patent settlement income | - | - | - | - | 17,500 | 17,500 |
| Total revenues | 88,683 | 573,423 | 662,106 | 48,996 | 562,140 | 611,136 |
| Cost of sales | 41,347 | 497,774 | 539,121 | 6,343 | 475,820 | 482,163 |
| Direct lease costs | 16,353 | - | 16,353 | 16,170 | - | 16,170 |
| Selling, general and administrative expenses | 11,075 | 64,681 | 75,756 | 14,473 | 64,655 | 79,128 |
| Segment earnings | 19,908 | 10,968 | 30,876 | 12,010 | 21,665 | 33,675 |
| Interest and financing costs | 6,476 | 114 | 6,590 | 7,301 | 191 | 7,492 |
| Earnings before income taxes | $ 13,432 | $ 10,854 | $ 24,286 | $ 4,709 | $ 21,474 | $ 26,183 |
| Assets | $ 244,825 | $ 145,342 | $ 390,167 | $ 294,419 | $ 148,078 | $ 442,497 |

Included in the financing business unit above are inter-segment accounts receivable of $45.2 million and $4.8 million for the nine months ended December 31, 2007 and 2006, respectively. Included in the technology sales business unit above are inter-segment accounts payable of $45.2 million and $4.8 million for the nine months ended December 31, 2007 and 2006, respectively.

For the three and nine months ended December 31, 2007, our technology sales business unit sold products to our financing business unit of $0.4 million and $1.7 million, respectively. These revenues were eliminated in our technology sales business unit for the same periods.

Table of Contents

13. THE NASDAQ STOCK MARKET PROCEEDINGS

Effective at the opening of business on July 20, 2007, our common stock was delisted from The Nasdaq Global Market due to non-compliance with financial statement reporting requirements. Specifically, in determining to delist our common stock, Nasdaq cited the delay of more than one year from the final due date for the filing of our fiscal year 2006 Annual Report on Form 10-K with the SEC. We filed our fiscal year 2006 Form 10-K with the SEC on August 16, 2007, and with the filing of this quarterly report, all of our delayed quarterly and annual reports have been filed with the SEC.

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

This discussion is intended to further the reader's understanding of the consolidated financial condition and results of operations of our company. It should be read in conjunction with the financial statements included in this quarterly report on Form 10-Q/A and our annual report on Form 10-K for the year ended March 31, 2007 (the "2007 Annual Report"). These historical financial statements may not be indicative of our future performance. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risks described in Part I, Item 1A, "Risk Factors" in our 2007 Annual Report and in Part II, Item 1A of this quarterly report on Form 10-Q/A.

Restatement

The following Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to the restatement as discussed in Note 2, "Restatement of Condensed Consolidated Statement of Cash Flows", of the Notes to Condensed Consolidated Financial Statements.

Discussion and Analysis Overview

ePlus and its consolidated subsidiaries provide leading IT products and services, flexible leasing solutions, and enterprise supply management to enable our customers to optimize their IT infrastructure and supply chain processes. Our revenues are composed of sales of product and services, sales of leased equipment, lease revenues and fee and other income. Our operations are conducted through two basic business segments: our technology sales business unit and our financing business unit.

Technology Sales Business Unit

The technology sales business unit sells information technology equipment and software and related services primarily to corporate customers on a nationwide basis. The technology sales business unit also provides internet-based business-to-business supply chain management solutions for information technology and other operating resources.

Our technology sales business unit derives revenue from the sales of new equipment and service engagements. These revenues are reflected in our Condensed Consolidated Statements of Operations under sales of product and services and fee and other income. Many customers purchase information technology equipment from us using Master Purchase Agreements ("MPAs") in which the terms and conditions of our relationship are stipulated. Some MPAs contain pricing arrangements. However, the MPAs do not contain purchase volume commitments and most have 30-day termination for convenience clauses. In addition, many of our customers place orders using purchase orders without an MPA in place. A substantial portion of our sales of product and services are from sales of Hewlett Packard and CISCO products, which represent approximately 22.0% and 34.0% of sales, respectively, for the three months ended December 31, 2007.

Included in the sales of product and services in our technology sales business unit are certain service revenues that are bundled with sales of equipment and are integral to the successful delivery of such equipment. Our service engagements are generally governed by Statements of Work and/or Master Service Agreements. They are primarily fixed fee; however, some agreements are time and materials or estimates. We endeavor to minimize the cost of sales in our technology sales business unit through vendor consideration programs provided by manufacturers. The programs are generally governed by our reseller authorization level with the manufacturer. 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 sales volume, certifications held by sales executives or engineers and/or contractual commitments by us. The authorizations are costly to maintain and these programs continually change and there is no guarantee of future reductions of costs provided by these vendor consideration programs. We currently maintain the following authorization levels with our major manufacturers:

Table of Contents

| Manufacturer | Manufacturer Authorization Level |
|---|---|
| Hewlett Packard | HP Platinum Major (National) |
| Cisco Systems | Cisco Gold DVAR (National) |
| Microsoft | Microsoft Gold (National) |
| Sun Microsystems | Sun SPA Executive Partner (National) |
| | Sun National Strategic DataCenter Authorized |
| IBM | Premier IBM Business Partner (National) |
| Lenovo | Lenovo Premium (National) |
| Network Appliance, Inc. | NetApp Platinum (Elite) |
| Citrix Systems, Inc. | Citrix Gold (National) |

Through our technology sales business unit we also generate revenue through hosting arrangements and sales of software. These revenues are reflected in our Condensed Consolidated Statements of Operations under fee and other income. In addition, fee and other income results from: (1) income from events that occur after the initial sale of a financial asset; (2) remarketing fees; (3) brokerage fees earned for the placement of financing transactions; and (4) interest and other miscellaneous income.

Financing Business Unit

The financing business unit offers lease-financing solutions to corporations and governmental entities nationwide. The financing business unit derives revenue from leasing primarily information technology equipment and sales of leased equipment. These revenues are reflected in our Condensed Consolidated Statements of Operations under lease revenues and sales of leased equipment.

Lease revenues consist of rentals due under operating leases, amortization of unearned income on direct financing and sales-type leases and sales of leased assets to lessees. These transactions are accounted for in accordance with SFAS No. 13. Each lease is classified as either a direct financing lease, sales-type lease, or operating lease, as appropriate. Under the direct financing and sales-type lease methods, we record the net investment in leases, which consists of the sum of the minimum lease payments, initial direct costs (direct financing leases only), and unguaranteed residual value (gross investment) less the unearned income. The difference between the gross investment and the cost of the leased equipment for direct finance leases is recorded as unearned income at the inception of the lease. The unearned income is amortized over the life of the lease using the interest method. Under sales-type leases, the difference between the fair value and cost of the leased property plus initial direct costs (net margins) is recorded as revenue at the inception of the lease. For operating leases, rental amounts are accrued on a straight-line basis over the lease term and are recognized as lease revenue. SFAS No. 140 establishes criteria for determining whether a transfer of financial assets in exchange for cash or other consideration should be accounted for as a sale or as a pledge of collateral in a secured borrowing. Certain assignments of direct finance leases we make on a non-recourse basis meet the criteria for surrender of control set forth by SFAS No. 140 and have, therefore, been treated as sales for financial statement purposes.

Sales of leased equipment represent revenue from the sales of equipment subject to a lease in which we are the lessor. Such sales of equipment 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. If the rental stream on such lease has non-recourse debt associated with it, sales revenue is recorded at the amount of consideration received, net of the amount of debt assumed by the purchaser. If there is no non-recourse debt associated with the rental stream, sales revenue is recorded at the amount of gross consideration received, and costs of sales is recorded at the book value of the lease.

27

Fluctuations in Revenues

Our results of operations are susceptible to fluctuations for a number of reasons, including, without limitation, customer demand for our products and services, supplier costs, interest rate fluctuations 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 the sale of equipment in our lease portfolio prior to the expiration of the lease term to the lessee or to a third party. Such sales of leased equipment prior to the expiration of the lease term may have the effect of increasing revenues and net earnings during the period in which the sale occurs, and reducing revenues and net earnings otherwise expected in subsequent periods.

We have expanded our product and service offerings under our comprehensive set of solutions which represents the continued evolution of our original implementation of our e-commerce products entitled ePlusSuite. The expansion to our bundled solution is a framework that combines our IT sales and professional services, leasing and financing services, asset management software and services, procurement software, and electronic catalog content management software and services.

We expect to expand or open new sales locations and hire additional staff for specific targeted market areas in the near future whenever we can find both experienced personnel and qualified geographic areas.

As a result of our acquisitions and expansion of sales locations, our historical results of operations and financial position may not be indicative of our future performance over time.

Critical Accounting Policies

Our discussion and analysis of the financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these Condensed Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we reevaluate our estimates, including those related to revenue recognition, residuals, vendor consideration, lease classification, goodwill and intangibles, reserves for credit losses and income taxes specifically relating to FIN 48. Estimates in the assumptions used in the valuation of our stock option expense are updated periodically and reflect conditions that existed at the time of each new issuance of stock options. We base estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. For all of these estimates, we caution that future events rarely develop exactly as forecasted, and therefore, these estimates routinely require adjustment.

We consider the following accounting policies important in understanding our operating results and financial condition. For additional accounting policies, see Note 1, “Basis of Presentation” to the Condensed Consolidated Financial Statements included elsewhere in this report.

As noted in Note 1, “Basis of Presentation,” under the caption “Income Taxes,” we adopted FIN 48 during the first quarter of fiscal 2008. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. Other than the adoption of FIN 48, our critical accounting policies and the methodologies and assumptions we apply under them have not materially changed since the date of our 2007 Annual Report.

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

Table of Contents

From time to time, in the sales of product and services, we may enter into contracts that contain multiple elements. Sales of services currently represent a small percentage of our sales. For services that are performed in conjunction with product sales and are completed in our facilities prior to shipment of the product, sales for both the product and services are recognized upon shipment. Sales of services that are performed at customer locations are recorded as sales of product or services when the services are performed. If the service is performed at a customer location in conjunction with a product sale or other service sale, we recognize the sale in accordance with SAB No. 104 and EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Accordingly, in an arrangement with multiple deliverables, we recognize sales for delivered items only when all of the following criteria are satisfied:

- the delivered item(s) has value to the client on a stand-alone basis;
- there is objective and reliable evidence of the fair value of the undelivered item(s); and
- if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in our control.

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

Revenue from hosting arrangements is recognized in accordance with EITF 00-3, "Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware." Our hosting arrangements do not contain a contractual right to take possession of the software. Therefore, our hosting arrangements are not in the scope of SOP 97-2, "Software Revenue Recognition," and require that allocation of the portion of the fee allocated to the hosting elements be recognized as the service is provided. Currently, the majority of our software revenue is generated through hosting agreements and is included in fee and other income on our Condensed Consolidated Statements of Operations.

Revenue from sales of our software is recognized in accordance with SOP 97-2, as amended by SOP 98-4, "Deferral of the Effective Date of a Provision of SOP 97-2," and SOP 98-9, "Modification of SOP 97-2 With Respect to Certain Transactions." We recognize revenue when all the following criteria exist: (1) there is persuasive evidence that an arrangement exists; (2) delivery has occurred; (3) no significant obligations by us related to services essential to the functionality of the software remain with regard to implementation; (4) the sales price is determinable; and (5) it is probable that collection will occur. Revenue from sales of our software is included in fee and other income on our Condensed Consolidated Statements of Operations.

At the time of each sale transaction, we make an assessment of the collectibility of the amount due from the customer. Revenue is only recognized at that time if management deems that collection is probable. In making this assessment, we consider customer creditworthiness and assess whether fees are fixed or determinable and free of contingencies or significant uncertainties. If the fee is not fixed or determinable, revenue is recognized only as payments become due from the customer, provided that all other revenue recognition criteria are met. In assessing whether the fee is fixed or determinable, we consider the payment terms of the transaction and our collection experience in similar transactions without making concessions, among other factors. Our software license agreements generally do not include customer acceptance provisions. However, if an arrangement includes an acceptance provision, we record revenue only upon the earlier of: (1) receipt of written acceptance from the customer; or (2) expiration of the acceptance period.

Our software agreements often include implementation and consulting services that are sold separately under consulting engagement contracts or as part of the software license arrangement. When we determine that such services are not essential to the functionality of the licensed software and qualify as "service transactions" under SOP 97-2, we record revenue separately for the license and service elements of these agreements. Generally, we consider that a service is not essential to the functionality of the software based on various factors, including if the services may be provided by independent third parties experienced in providing such consulting and implementation in coordination with dedicated customer personnel. If an arrangement does not qualify for separate accounting of the license and service elements, then license revenue is recognized together with the consulting services using either the percentage-of-completion or completed-contract method of contract accounting. Contract accounting is also applied to any software agreements that include customer-specific acceptance criteria or where the license payment is tied to the performance of consulting services. Under the percentage-of-completion method, we may estimate the stage of completion of contracts with fixed or "not to exceed" fees based on hours or costs incurred to date as compared with estimated total project hours or costs at completion. If we do not have a sufficient basis to measure progress towards completion, revenue is recognized upon completion of the contract. When total cost estimates exceed revenues, we accrue for the estimated losses immediately. The use of the percentage-of-completion method of accounting requires significant judgment relative to estimating total contract costs, including assumptions relative to the length of time to complete the project, the nature and complexity of the work to be performed, and anticipated changes in salaries and other costs. When adjustments in estimated contract costs are determined, such revisions may have the effect of adjusting, in the current period, the earnings applicable to performance in prior periods.

Table of Contents

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

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

When consulting qualifies for separate accounting, consulting revenues under time and materials billing arrangements are recognized as the services are performed. Consulting revenues under fixed-price contracts are generally recognized using the percentage-of-completion method. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is sufficiently resolved. Consulting revenues are classified as fee and other income on our Condensed Consolidated Statements of Operations.

Training services include on-site training, classroom training and computer-based training and assessment. Training revenue is recognized as the related training services are provided and is included in fee and other income on our Condensed Consolidated Statements of Operations.

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

Table of Contents

LEASE CLASSIFICATION. The manner in which lease finance transactions are characterized and reported for accounting purposes has a major impact upon reported revenue and net earnings. Lease accounting methods critical to our business are discussed below.

We classify our lease transactions in accordance with SFAS No. 13, "Accounting for Leases," as: (1) direct financing; (2) sales-type; or (3) operating leases. Revenues and expenses between accounting periods for each lease term will vary depending upon the lease classification.

As a result of these three classifications of leases for accounting purposes, the revenues resulting from the "mix" of lease classifications during an accounting period will affect the profit margin percentage for such period and such profit margin percentage generally increases as revenues from direct financing and sales-type leases increase. Should a lease be financed, the interest expense declines over the term of the financing as the principal is reduced.

For financial statement purposes, we present revenue from all three classifications in lease revenues, and costs related to these leases in direct lease costs.

DIRECT FINANCING AND SALES-TYPE LEASES. Direct financing and sales-type leases transfer substantially all benefits and risks of equipment ownership to the customer. A lease is a direct financing or sales-type lease if the creditworthiness of the customer and the collectibility of lease payments are reasonably certain, no important uncertainties surround the amount of unreimbursable costs yet to be incurred, and it meets one of the following criteria: (1) the lease transfers ownership of the equipment to the customer by the end of the lease term; (2) the lease contains a bargain purchase option; (3) the lease term at inception is at least 75% of the estimated economic life of the leased equipment; or (4) the present value of the minimum lease payments is at least 90% of the fair market value of the leased equipment at the inception of the lease.

Direct financing leases are recorded as investment in leases and leased equipment—net upon acceptance of the equipment by the customer. At the commencement of the lease, unearned lease income is recorded that represents the amount by which the gross lease payments receivable plus the estimated unguaranteed residual value of the equipment exceeds the equipment cost. Unearned lease income is recognized, using the interest method, as lease revenue over the lease term.

Sales-type leases include a dealer profit or loss that is recorded by the lessor upon acceptance of the equipment by the lessee. The dealer's profit or loss represents the difference, at the inception of the lease, between the present value of minimum lease payments computed at the interest rate implicit in the lease and the cost or carrying amount of the equipment (less the present value of the unguaranteed residual value) plus any initial direct costs. Interest earned on the present value of the lease payments and residual value is recognized over the lease term using the interest method.

OPERATING LEASES. All leases that do not meet the criteria to be classified as direct financing or sales-type leases are accounted for as operating leases. Rental amounts are accrued on a straight-line basis over the lease term and are recognized as lease revenue. Our cost of the leased equipment is recorded on the balance sheet as investment in leases and leased equipment—net and is depreciated on a straight-line basis over the lease term to our estimate of residual value. Revenue, depreciation expense and the resulting profit for operating leases are recorded on a straight-line basis over the life of the lease.

Lease revenues consist of rentals due under operating leases, amortization of unearned income on direct financing and sales-type leases and sales of leased assets to lessees. Equipment under operating leases is recorded at cost on the balance sheet as investment in leases and leased equipment—net and depreciated on a straight-line basis over the lease term to our estimate of residual value. For the periods subsequent to the lease term, where collectibility is certain, revenue is recognized on an accrual basis. Where collectibility is not reasonably assured, revenue is recognized upon receipt of payment from the lessee.

RESIDUAL VALUES. Residual values represent our estimated value of the equipment at the end of the initial lease term. The residual values for direct financing and sales-type leases are included as part of the investment in direct financing and sales-type leases. The residual values for operating leases are included in the leased equipment's net book value and are reported in the investment in leases and leased equipment—net. The estimated residual values will vary, both in amount and as a percentage of the original equipment cost, and depend upon several factors, including the equipment type, manufacturer's discount, market conditions and the term of the lease.

Table of Contents

We evaluate residual values on a quarterly basis and record any required changes in accordance with SFAS No. 13, paragraph 17.d., in which impairments of residual value, other than temporary, are recorded in the period in which the impairment is determined. Residual values are affected by equipment supply and demand and by new product announcements by manufacturers.

We seek to realize the estimated residual value at lease termination mainly through: (1) renewal or extension of the original lease; (2) the sale of the equipment either to the lessee or on the secondary market; or (3) lease of the equipment to a new customer. The difference between the proceeds of a sale and the remaining estimated residual value is recorded as a gain or loss in lease revenues when title is transferred to the lessee, or if the equipment is sold on the secondary market, in sales of product and services and cost of sales, product and services when title is transferred to the buyer.

INITIAL DIRECT COSTS. Initial direct costs related to the origination of direct financing or operating leases are capitalized and recorded as part of the net investment in direct financing leases or net operating lease equipment, and are amortized over the lease term.

ASSUMPTIONS RELATED TO GOODWILL. We account for our acquisitions using the purchase method of accounting. This method requires estimates to determine the fair values of assets and liabilities acquired, including judgments to determine any acquired intangible assets such as customer-related intangibles, as well as assessments of the fair value of existing assets such as property and equipment. Liabilities acquired can include balances for litigation and other contingency reserves established prior to or at the time of acquisition, and require judgment in ascertaining a reasonable value. Third party valuation firms may be used to assist in the appraisal of certain assets and liabilities, but even those determinations would be based on significant estimates provided by us, such as forecasted revenues or profits on contract-related intangibles. Numerous factors are typically considered in the purchase accounting assessments. Changes in assumptions and estimates of the acquired assets and liabilities would result in changes to the fair values, resulting in an offsetting change to the goodwill balance associated with the business acquired.

As goodwill is not amortized, goodwill balances are regularly assessed for potential impairment. Such assessments require an analysis of future cash flow projections as well as a determination of an appropriate discount rate to calculate present values. Cash flow projections are based on management-approved estimates. Key factors used in estimating future cash flows include assessments of labor and other direct costs on existing contracts, estimates of overhead costs and other indirect costs, and assessments of new business prospects and projected win rates. Significant changes in the estimates and assumptions used in purchase accounting and goodwill impairment testing can have a material effect on our consolidated financial statements.

RESERVES FOR CREDIT LOSSES. The reserves for credit losses are maintained at a level believed by management to be adequate to absorb potential losses inherent in our lease and accounts receivable portfolio. Management's determination of the adequacy of the reserve is based on an evaluation of historical credit loss experience, current economic conditions, volume, growth, the composition of the lease portfolio and other relevant factors. These determinations require considerable judgment in assessing the ultimate potential for collection of these receivables and include giving consideration to the customer's financial condition, and the value of the underlying collateral and funding status (i.e., discounted on a non-recourse or recourse basis). Our allowance also includes consideration of uncollectible vendor receivables which arise from vendor rebate programs and other promotions.

CAPITALIZATION OF SOFTWARE DEVELOPMENT COSTS. We capitalize certain costs incurred to develop commercial software products and to develop or purchase internal-use software. Significant estimates and assumptions include: determining the appropriate period over which to amortize the capitalized costs based on the estimated useful lives, estimating the marketability of the commercial software products and related future revenues, and assessing the unamortized cost balances for impairment. For commercial software products, determining the appropriate amortization period is based on estimates of future revenues from sales of the products. We consider various factors to project marketability and future revenues, including an assessment of alternative solutions or products, current and historical demand for the product, and anticipated changes in technology that may make the product obsolete. For internal-use software, the appropriate amortization period is based on estimates of our ability to utilize the software on an ongoing basis. To assess the realizability or recoverability of capitalized software costs, we must estimate future revenue, costs and cash flows. Such estimates require assumptions about future cash inflows and outflows, and are based on the experience and knowledge of professional staff. A significant change in an estimate related to one or more software products could result in a material change to our results of operations.

SHARE-BASED PAYMENT. On April 1, 2006, we adopted SFAS No. 123 (revised 2004), "Share-Based Payment," or SFAS No. 123R. SFAS No. 123R replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and subsequently issued stock option related guidance. We elected the modified-prospective transition method. Under the modified-prospective method, we must recognize compensation expense for all awards subsequent to adopting the standard and for the unvested portion of previously granted awards outstanding upon adoption. We have recognized compensation expense equal to the fair values for the unvested portion of share-based awards at April 1, 2006 over the remaining period of service, as well as compensation expense for those share-based awards granted or modified on or after April 1, 2006 over the vesting period based on the grant-date fair values using the straight-line method. For those awards granted prior to the date of adoption, compensation expense is recognized on an accelerated basis based on the grant-date fair value amount as calculated for pro forma purposes under SFAS No. 123.

INCOME TAXES. On April 1, 2007, we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes —An Interpretation of FASB Statement No. 109" ("FIN 48"). As a result of the implementation, we recognize liabilities for uncertain tax positions based on the two-step approach prescribed in the interpretation. The first step is to evaluate each uncertain tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. For tax positions that are more likely than not to be sustained upon audit, the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50 percent likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible outcomes. We will reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Changes in the recognition or measurement of uncertain tax positions could result in material increases or decreases in our income tax expense in the period in which we make the change. We recorded a cumulative effect adjustment of $491 thousand to our fiscal 2008 balance of beginning retained earnings in our Condensed Consolidated Financial Statements.

Results of Operations — Three and Nine months ended December 31, 2007 Compared to Three and Nine months ended December 31, 2006

Revenues. We generated total revenues during the three months ended December 31, 2007 of $198.4 million compared to revenues of $222.9 million during the three months ended December 31, 2006, a decrease of 11.0%. This decrease is primarily due to a decrease in sales of product and services and the receipt of $17.5 million patent settlement income during the three months ended December 31, 2006. Excluding the patent settlement income of $17.5 million, total revenues decreased 3.4% during the three months ended December 31, 2007 as compared to the same period in the prior year. During the nine months ended December 31, 2007, revenues increased 8.3% to $662.1 million, from $611.1 million during the same period ended December 31, 2006. These increases are driven by increases in sales of product and services, sales of leased equipment and fees and other income, partially offset by decrease in patent settlement income during the nine months ended December 31, 2006.

Sales of product and services decreased 8.1% to $168.4 million during the three months ended December 31, 2007 compared to $183.3 million generated during the three months ended December 31, 2006 and represented 84.9% and 82.2% of total revenue, respectively. This decrease may be attributed to an economic downturn, which generally results in our customers' propensity to postpone technology equipment investments. During the nine months ended December 31, 2007, sales of product and services increased 4.8% to $564.6 million compared to $538.9 million during the nine months ended December 31, 2006, and represented 85.3% and 88.2% of total revenue, respectively. The increase for the sales of product and services was due to growth in sales in our technology sales business unit, driven by a higher demand from our existing customer base and the addition of new customers during the first two quarters of the 2008 fiscal year. The decrease of 2.9% in sales of product and services as a percentage of total revenue resulted from a proportionately higher increase in sales of leased equipment.

Table of Contents

We realized a gross margin on sales of product and services of 11.6% and 11.4% for the three and nine months ended December 31, 2007, respectively, and 12.0% and 11.3% for the three and nine months ended December 31, 2006. Our gross margin on sales of product and services was affected by our customers' investment in technology equipment, the mix and volume of products sold and changes in incentives provided to us by manufacturers.

Lease revenues decreased 23.8% to $12.2 million for the three months ended December 31, 2007, from the three months ended December 31, 2006. This decrease is due to a decrease in our operating lease portfolio as compared to prior period and a gain in sale in our direct financing sales portfolio during the same period in the prior year. For the nine months ended December 31, 2007, lease revenues increased 7.2% to $43.8 million. This increase is primarily driven by sales of leased assets to our lessees, partially offset by the decrease in revenue in our operating lease portfolio and direct financing sales portfolio. From time to time, our lessees purchase leased assets from us before and at the end of the lease term. During the three and nine months ended December 31, 2007, there were 52.1% and 143.1% increases in the sale of leased assets to lessees compared to the same periods last year, respectively. Our net investment in leased assets was $161.1 million as of December 31, 2007, a 25.8% decrease from $217.0 million as of December 31, 2006. This decrease was due to a reduction in our direct financing lease portfolio resulting from the sale of lease schedules and termination of leases in our operating lease portfolio.

We also recognize revenue from the sale of leased equipment to non-lessee third parties. During the three months ended December 31, 2007 and December 31, 2006, we sold a portion of our lease portfolio and recognized a gross margin of 3.1% and 1.9%, respectively, on these sales. The revenue recognized on the sale of leased equipment totaled approximately $13.7 million and $2.6 million, and the cost of leased equipment totaled $13.3 million and $2.5 million, respectively, for the three months ended December 31, 2007 and 2006. For the nine months ended December 31, 2007 and 2006, revenue recognized from sales of leased equipment totaled $40.5 million and $4.4 million, and the cost of leased equipment totaled $38.9 million and $4.3 million, resulting in gross margin of 4.0% and 2.1%, respectively. The revenue and gross margin recognized on sales of leased equipment can vary significantly depending on the nature and timing of the sale, as well as the timing of any debt funding recognized in accordance with SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended by SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

For the three months ended December 31, 2007, fee and other income was $4.1 million, an increase of 16.0% over the $3.5 million during the three months ended December 31, 2006. For the nine months ended December 31, 2007, fee and other income was $13.1 million, an increase of 38.4% over the $9.5 million during the nine months ended December 31, 2006. These increases are driven by an increase in agent fees from manufacturers and an increase in revenue from sales of our software in our technology sales business unit. Fee and other income may also include revenues from adjunct services and fees, including broker and agent fees, support fees, warranty reimbursements, monetary settlements arising from disputes and litigation and interest income. Our fee and other income contains earnings from certain transactions that are in our normal course of business, but there is no guarantee that future transactions of the same nature, size or profitability will occur. Our ability to consummate such transactions, and the timing thereof, may depend largely upon factors outside the direct control of management. The earnings from these types of transactions in a particular period may not be indicative of the earnings that can be expected in future periods.

There was no patent settlement income during the three and nine months ended December 31, 2007. During the three and nine months ended December 31, 2006, patent settlement income was $17.5 million. This settlement income was a result of a settlement of a lawsuit filed against SAP America, Inc. and SAP AG in December 2006, as previously disclosed in our Form 10-K for the fiscal year ended March 31, 2007.

Costs and Expenses. During the three months ended December 31, 2007, cost of sales, product and services decreased 7.7% to $148.8 million as compared to $161.3 million during the same period ended December 31, 2006. During the nine months ended December 31, 2007, cost of sales, product and services increased 4.7% to $500.2 million from

$477.9 million during the same period ended December 31, 2006. These changes corresponds to the decrease and increase in sales of product and services in our technology sales business unit during the three and nine months ended December 31, 2007, respectively.

Direct lease costs decreased 20.0% to $4.5 million during the three months ended December 31, 2007, and increased 1.1% to $16.4 million during the nine months ended December 31, 2007 as compared to the same periods in the prior fiscal year. The largest component of direct lease costs is depreciation expense for operating lease equipment. Our investment in operating leases decreased 36.0% to $35.7 million at December 31, 2007 as compared to the same period in the prior fiscal year.

Table of Contents

Professional and other fees decreased 65.8% to $2.5 million and 27.4% to $9.7 million for the three and nine months ended December 31, 2007, as compared to the same periods in the prior fiscal year, respectively. These decreases are due to higher expenses incurred in the three and nine months ended December 31, 2006 related to a lawsuit against SAP and an investigation of stock options grants commenced by our Audit Committee, as previously disclosed in our Form 10-K for the year ended March 31, 2007. The decreases in professional and other fees were partially offset by an increase in audit fees and consulting fees.

Salaries and benefits expense decreased 4.9% to $17.1 million during the three months ended December 31, 2007 as compared to the same period in the previous fiscal year due to a reduction in the number of employees and lower sales commission expense resulting from a decrease in sales of product and services. We employed 649 people at December 31, 2007, as compared to 682 people at December 31, 2006. During the nine months ended December 31, 2007, salaries and benefit expense increased 2.0% to $54.0 million. Although we employ fewer employees, salaries and benefits expense increased primarily due to share-based compensation expense of $1.5 million incurred during the first quarter of the 2008 fiscal year. As previously disclosed, there was a cancellation of 450,000 options which led to an immediate recognition of $1.5 million share-based compensation expense during the nine months ended December 31, 2007.

General and administrative expenses decreased 7.2% to $3.8 million during the three months ended December 31, 2007, and 6.1% to $12.1 million during the nine months ended December 31, 2007, as compared to the same period in the prior fiscal year. These decreases were due to increased efficiency in spending controls and efforts to enhance productivity.

Interest and financing costs decreased 36.0% to $1.8 million, and 12.0% to $6.6 million during the three and nine months ended December 31, 2007, as compared to the same periods in the prior fiscal year. These decreases are primarily due to lower interest costs and related expenses as a result of a decrease in recourse and non-recourse notes payable, as compared to same periods in the prior fiscal year. The decrease non-recourse notes payable is due to the maturity of 189 leases in our debt portfolio and the sale of 30 lease schedules during the nine months ended December 31, 2007, combined with a normal reduction in principal and interest partially offset by new leases. The decrease in recourse notes payable is due to the payment of our balance of our credit facility with National City Bank on December 31, 2007.

Provision for Income Taxes. Our provision for income taxes decreased $6.1 million to $3.0 million for the three months ended December 31, 2007, and $66 thousand to $10.7 million for the nine months ended December 31, 2007, as compared to the same periods in the prior fiscal year. These decreases are primarily due to decreases in net earnings for both periods, partially offset by an increase in non-deductible share-based compensation expense related to the cancellation of 450,000 options during the three months ended June 30, 2007. Our effective income tax rates for the three and nine months ended December 31, 2007 were 44.4% and 43.9%, respectively. Our effective income tax rate for both the three and nine months ended December 31, 2006 was 42.2%.

Net Earnings. The foregoing resulted in net earnings of $3.8 million, a decrease of 69.8% for the three months ended December 31, 2007, as compared to $12.4 million during the same period in the prior fiscal year. Net earnings for the nine months ended December 31, 2007 was $13.6 million, a decrease of 11.9% as compared to $15.4 million during the same period in the prior fiscal year.

Both basic and fully diluted earnings per common share were $0.45, respectively for the three months ended December 31, 2007, as compared to $1.51 and $1.47, respectively, for the three months ended December 31, 2006. Basic and diluted weighted average common shares outstanding for the three months ended December 31, 2007 are 8,231,741 and 8,422,256, respectively. For the three months ended December 31, 2006, the basic and diluted weighted average common shares outstanding are 8,231,741 and 8,456,627, respectively.

Basic and fully diluted earnings per common share were $1.65 and $1.63 for the nine months ended December 31, 2007, respectively, as compared to $1.88 and $1.80 for the nine months ended December 31, 2006, respectively. Basic and diluted weighted average common shares outstanding for the nine months ended December 31, 2007 are 8,231,741 and 8,375,412, respectively. For the nine months ended December 31, 2006, the basic and diluted weighted average common shares outstanding are 8,222,700 and 8,577,999, respectively.

Table of Contents

## Financial Condition

### Cash Flows

During the nine months ended December 31, 2007, we generated cash flows from operations of $24.5 million and used cash flows from investing activities of $4.3 million. Cash flows provided by financing activities amounted to $5.4 million during the same period. The effect of exchange rate changes during the period generated cash flows of $308 thousand. The net effect of these cash flows was a net increase in cash and cash equivalents of $25.9 million during the nine months ended December 31, 2007. During the same period, our total assets decreased $28.0 million, or 6.7%, primarily as the result of decreases in investment in leases and lease equipment—net. Our cash balance as of December 31, 2007 was $65.6 million as compared to $39.7 million as of March 31, 2007.

### Liquidity and Capital Resources

Debt financing activities provide approximately 80% to 100% of the purchase price of the equipment we purchase for leases to our customers. Any balance of the purchase price (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 leases and our residual return history will continue to allow it to obtain such financing, no assurances can be given that such financing will be available on acceptable terms, or at all. The financing necessary to support our leasing activities has principally been provided by non-recourse and recourse borrowings. Historically, we have obtained recourse and non-recourse borrowings from banks and finance companies. Non-recourse financings are loans whose repayment is the responsibility of a specific customer, although we may make representations and warranties to the lender regarding the specific contract or have ongoing loan servicing obligations. Under a non-recourse loan, we borrow from a lender an amount based on the present value of the contractually committed 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 payment, 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 its only recourse, upon default by the lessee, is against the lessee and the specific equipment under lease. At December 31, 2007, our lease-related non-recourse debt portfolio decreased 29.3% to $104.7 million as compared to $148.1 million at March 31, 2007. This decrease is due to the maturity of 189 leases in our debt portfolio and the sale of 30 lease schedules, during the nine months ended December 31, 2007, combined with a normal reduction in principal and interest partially offset by new leases.

Whenever possible and desirable, we arrange for equity investment financing, which includes selling assets, 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.

Accounts payable—equipment represents equipment costs that have been placed on a lease schedule, but for which we have not yet paid. The balance of unpaid equipment costs can vary depending on vendor terms and the timing of lease originations. As of December 31, 2007 and March 31, 2007, we had $6.5 million of unpaid equipment costs.

Accounts payable—trade increased 23.9% to $27.0 million as of December 31, 2007 from $21.8 million as of March 31, 2007. The increase is primarily related to an increase in sales of product and services and, consequently, an increase in cost of goods sold, product and services from our technology sales business unit.

Accounts payable—floor plan decreased 6.9% to $51.6 million as of December 31, 2007 from $55.5 million as of March 31, 2007. This decrease is primarily due to lower sales of product and services from our technology sales business unit that we transacted through our floor plan facility with GECDF.

Accrued expenses and other liabilities includes deferred expenses, income tax accrual and amounts collected and payable, such as sales taxes and lease rental payments due to third parties. We had $26.7 million and $26.0 million of accrued expenses and other liabilities as of December 31, 2007 and March 31, 2007, respectively, an increase of 2.8%.

Table of Contents

Based on past performance and current expectations, we believe that our cash and cash equivalents, available borrowings based on continued compliance and/or waivers or extensions under our credit facilities, and cash generated from operations will satisfy our working capital needs, capital expenditures, stock repurchases, commitments, acquisitions and other liquidity requirements associated with our existing operations through at least the next 12 months.

Credit Facility — Technology Business

Our subsidiary, ePlus Technology, inc., has a financing facility from GECDF 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. As of December 31, 2007, the facility had an aggregate limit of the two components of $125 million with an accounts receivable sub-limit of $30 million. As of June 20, 2007, the facility had an aggregate limit of the two components of $100 million. As of September 30, 2007, the facility with GECDF was amended to temporarily increase the total credit facility limit to $100 million during the period from June 19, 2007 through August 15, 2007. On August 2, 2007, the period was extended from August 15, 2007 to September 30, 2007 and then extended again on October 1, 2007 through October 31, 2007. Other than during the temporary increase periods described above, the total credit facility limit was $85 million. The accounts receivable component has a sub-limit of $30 million. Effective October 29, 2007, the aggregate limit of the facility was increased to $125 million with an accounts receivable sub-limit of $30 million, and the temporary overline period was eliminated. Availability under the GECDF facility may be limited by the asset value of equipment we purchase and may be further limited by certain covenants and terms and conditions of the facility. These covenants include but are not limited to a minimum total tangible net worth and subordinated debt, and maximum debt to tangible net worth ratio of ePlus Technology, inc. We were in compliance with these covenants as of December 31, 2007.

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

Floor Plan Component

The traditional business of ePlus Technology, inc. as a seller of computer technology, related peripherals and software products is financed through a floor plan component in which interest expense for the first thirty- to forty-five days, in general, is not charged. The floor plan liabilities are recorded as accounts payable—floor plan on our Condensed Consolidated Balance Sheets, as they are normally repaid within the thirty- to forty-five day time frame and represent an assigned accounts payable originally generated with the manufacturer/distributor. If the thirty- to forty-five day obligation is not paid timely, interest is then assessed at stated contractual rates.

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

| Maximum Credit Limit at March 31, 2007 | Balance as of March 31, 2007 | Maximum Credit Limit at December 31, 2007 | Balance as of December 31, 2007 |
|---|---|---|---|
| $ 85,000 | $ 55,470 | $ 125,000 | $ 51,618 |

Accounts Receivable Component

Included within the floor plan component, ePlus Technology, inc. has an accounts receivable component from GECDF, 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 customers into a lockbox and our available cash. The outstanding balance under the accounts receivable component is recorded as recourse notes payable on our Condensed Consolidated Balance Sheets.

Table of Contents

The respective accounts receivable component credit limits and actual outstanding balances (in thousands) for the dates indicated were as follows:

| Maximum Credit Limit at March 31, 2007 | Balance as of March 31, 2007 | Maximum Credit Limit at December 31, 2007 | Balance as of December 31, 2007 |
|---|---|---|---|
| $ 30,000 | $ - | $ 30,000 | $ - |

Credit Facility — Leasing Business

Working capital for our leasing business is provided through a $35 million credit facility which is currently contractually scheduled to expire on July 10, 2009. Participating in this facility are Branch Banking and Trust Company ($15 million) and National City Bank ($20 million), with National City Bank acting as agent. The ability to borrow under this facility is limited to the amount of eligible collateral at any given time. The credit facility has full recourse to us and is secured by a blanket lien against all of our assets such as chattel paper (including leases), receivables, inventory and equipment and the common stock of all wholly-owned subsidiaries.

The credit facility contains certain financial covenants and certain restrictions on, among other things, our ability to make certain investments, and sell assets or merge with another company. Borrowings under the credit facility bear interest at London Interbank Offered Rates ("LIBOR") plus an applicable margin or, at our option, the Alternate Base Rate ("ABR") plus an applicable margin. The ABR is the higher of the agent bank's prime rate or Federal Funds rate plus 0.5%. The applicable margin is determined based on our recourse funded debt ratio and can range from 1.75% to 2.50% for LIBOR loans and from 0.0% to 0.25% for ABR loans. As of December 31, 2007, we had no outstanding balance on the facility.

In general, we may use the National City Bank facility to pay the cost of equipment to be put on lease, and we repay borrowings from the proceeds of: (1) long-term, non-recourse, fixed rate financing which we obtain from lenders after the underlying lease transaction is finalized; or (2) sales of leases to third parties. The availability of the credit facility is subject to a borrowing base formula that consists of inventory, receivables, purchased assets and lease assets. Availability under the credit facility may be limited by the asset value of the equipment purchased by us or by terms and conditions in the credit facility agreement. If we are unable to sell the equipment or unable to finance the equipment on a permanent basis within a certain time period, the availability of credit under the facility could be diminished or eliminated. The credit facility contains covenants relating to minimum tangible net worth, cash flow coverage ratios, maximum debt to equity ratio, maximum guarantees of subsidiary obligations, mergers and acquisitions and asset sales. Other than as detailed below, we are in compliance with these covenants as of December 31, 2007.

The National City Bank facility requires the delivery of our Audited and Unaudited Financial Statements, and pro-forma financial projections, by certain dates. We had not delivered, as required by Section 5.1 of the facility, our quarterly Condensed Consolidated Unaudited Financial Statements for the quarter ended December 31, 2007 included herein. We entered into the following amendments which have extended the delivery date requirements for these documents: a First Amendment dated July 11, 2006, a Second Amendment dated July 28, 2006, a Third Amendment dated August 30, 2006, a Fourth Amendment dated September 27, 2006, a Fifth Amendment dated November 15, 2006, a Sixth Amendment dated January 11, 2007, a Seventh Amendment dated March 12, 2007, an Eighth Amendment dated June 27, 2007, a Ninth Amendment dated August 22, 2007, a Tenth Amendment dated November 29, 2007 and an Eleventh Amendment dated February 29, 2008. As a result of the amendments, the agents agreed, among other things, to extend the delivery date requirements of the documents above through June 30, 2008.

We believe we will receive additional extensions from our lender, if needed, regarding our requirement to provide financial statements as described above through the date of delivery of the documents. However, we cannot guarantee that we will receive additional extensions.

Table of Contents

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 Condensed Consolidated Statements 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, reduction in IT spending, our entry into the e-commerce market, any reduction of expected residual values related to the equipment under our leases, the timing and mix of specific transactions, and other factors. See Part I, Item 1A, “Risk Factors,” in our 2007 Annual Report.  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.  Such sales of equipment 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.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

This Item has been omitted based on the Company's status as a "smaller reporting company.”

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures, or “disclosure controls,” pursuant to Exchange Act Rule 13a-15(b). Disclosure controls are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this quarterly report, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms. Disclosure controls include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls include some, but not all, components of our internal control over financial reporting. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of December 31, 2007 due to material weaknesses in our internal control over financial reporting as discussed below.

39

Table of Contents

Change in Internal Control over Financial Reporting

During the course of preparing our Condensed Consolidated Financial Statements for the quarter ended December 31, 2006, we identified a material weakness related to the cut-off and recognition of service sales and accrued liabilities. We have begun remediation of this material weakness as described below.

In addition, during the course of preparing our Form 10-K for the period ended March 31, 2008, we identified a material weakness related to the presentation of the sale of a group of operating leases in the Condensed Consolidated Statement of Cash Flows for the nine months ended December 31, 2007, which resulted in the restatement of the Condensed Consolidated Statement of Cash Flows as discussed in Note 2 to the Condensed Consolidated Financial Statements. We have begun remediation of this material weakness as described below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Other than as discussed above, there have not been any changes in our internal control over financial reporting during the quarter ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Plan for Remediation

In connection with the preparation of our Condensed Consolidated Financial Statements for the quarter ended December 31, 2007, we performed additional procedures related to the cut-off and recognition matters noted above. In addition, we are developing a plan to enhance our controls surrounding these cut-off issues including, but not limited to, improvements to existing software applications to track service engagements, standardization of sales contract terms, and additional staff training. The actions that we plan to take are subject to continued management review supported by confirmation and testing as well as Audit Committee oversight.

In connection with the preparation of our Form 10-K for the period ended March 31, 2008, we identified an error in our Condensed Consolidated Statement of Cash Flows for the nine months ended December 31, 2007. Our internal controls over financial reporting related to the process for the preparation and review of the condensed consolidated statement of cash flows did not identify the error in time to preclude a misstatement of the statement of cash flows. As a result of this discovery, we have corrected the error in the classification of the sale of operating leases on the statement of cash flows and this Form 10-Q/A reflects the restatement of our Condensed Consolidated Statement of Cash Flows for the nine months ended December 31, 2007. We have discussed the error described above with the Audit Committee of the Board of Directors. Management has reviewed its financial review process with staff members, will provide focused training on cash flow statements, and will develop further procedures to review the presentation of transactions that are performed infrequently.

Table of Contents

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

Cyberco Related Matters

We have been involved in several matters arising from four separate installment sales to a customer named Cyberco Holdings, Inc. (“Cyberco”). The Cyberco principals were perpetrating a scam, which victimized several dozen leasing and lending institutions. Five Cyberco principals have pled guilty to criminal conspiracy and/or related charges including bank fraud, mail fraud and money laundering. Cyberco, related affiliates, and at least one principal are in Chapter 7 bankruptcy. No future payments are expected from Cyberco.

Two lenders who financed the Cyberco transactions filed claims against our subsidiary, ePlus Group, inc., seeking to recover their losses. Those lawsuits have been resolved. In the one remaining Cyberco-related matter in which we are a defendant, one of the lenders, Banc of America Leasing and Capital, LLC (“BoA”), filed a lawsuit against ePlus inc., in the Circuit Court for Fairfax County, Virginia, on November 3, 2006, seeking to enforce a guaranty in which ePlus inc. guaranteed ePlus Group’s obligations to BoA relating to the Cyberco transaction. ePlus Group has already paid to BoA $4.3 million awarded to BoA in the lawsuit between those parties. The suit against ePlus inc. seeks attorneys’ fees BoA incurred in ePlus Group’s appeal of BoA’s suit against ePlus Group, expenses BoA incurred in Cyberco’s bankruptcy proceedings, attorneys’ fees incurred by BoA in defending a pending suit, described below, by ePlus Group against BoA in California, and all attorneys’ fees and costs BoA has incurred arising in any way from the Cyberco matter. The trial in this suit has been stayed pending the outcome of ePlus Group’s suit against BoA in California. We are vigorously defending the suit against us by BoA. We cannot predict the outcome of this suit.

We also have been pursuing several avenues to recover our losses relating to Cyberco. First, we sought insurance coverage from our insurance carrier, Travelers Property Casualty Company of America (“Travelers”). We filed a Complaint seeking a declaratory judgment that our liability to GMAC and BoA described above is covered by our insurance policy. The court found that we did not have insurance coverage for those matters, and granted summary judgment for Travelers. In March 2008, the United States Court of Appeals for the Second Circuit affirmed the lower court’s finding of no coverage. Two other matters are still pending. First, we have filed claims in state court in California against BoA seeking relief on matters not adjudicated between the parties in Virginia. Second, in June 2007, ePlus Group, inc. and two other Cyberco victims filed suit in the United States District Court for the Western District of Michigan against The Huntington National Bank. The complaint alleges counts of aiding and abetting fraud, aiding and abetting conversion, and statutory conversion. While we believe that we have a basis for these claims to recover certain of our losses related to the Cyberco matter, we cannot predict whether we will be successful in our claims for damages, whether any award ultimately received will exceed the costs incurred to pursue these matters, or how long it will take to bring these matters to resolution.

Other Matters

On January 18, 2007 a shareholder derivative action related to stock option practices was filed in the United States District Court for the District of Columbia. The amended complaint names ePlus inc. as nominal defendant, and personally names eight individual defendants who are directors and/or executive officers of ePlus, inc. The amended complaint alleges violations of federal securities law, and various state law claims such as breach of fiduciary duty, waste of corporate assets and unjust enrichment. The amended complaint seeks monetary damages from the individual defendants and that we take certain corrective actions relating to option grants and corporate governance, and attorneys’ fees. We have filed a motion to dismiss the amended complaint. We cannot predict the outcome of this suit.

We are currently engaged in a dispute with the government of the District of Columbia (“DC”) regarding personal property taxes on property we financed for our customers. DC is seeking approximately $508 thousand, plus interest and penalties, relating to property we financed for our customers. We believe the tax is owed by our customers, and are seeking resolution in DC’s Office of Administrative Hearings. We cannot predict the outcome of this matter. While management does not believe this matter will have a material effect on its financial condition and results of operations, resolution of this dispute is ongoing.

There can be no assurance that these or any existing or future litigation arising in the ordinary course of business or otherwise will not have a material adverse effect on our business, consolidated financial position, or results of operations or cash flows.

Table of Contents

Item 1A. Risk Factors

The risk factors listed below update and should be read in conjunction with the risk factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended March 31, 2007, which could materially affect our business, financial condition or future results. The risks described herein and in our Annual Report on Form 10-K are not exhaustive. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, may materially adversely affect our business, financial condition and/or operating results. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

We Have Identified a Material Weaknesses and Concluded that Our Internal Control Over Financial Reporting was not Effective as of December 31, 2007.

We have identified material weaknesses related to the cut-off and recognition of service sales, accrued liabilities, and the presentation of the sale of a group of operating leases in the Condensed Consolidated Statement of Cash Flows for the nine months ended December 31, 2007. As a result, we have concluded that our internal control over financial reporting as of December 31, 2007 was not effective. Remediation of these material weaknesses may be costly and time consuming. Inability to maintain effective internal control over financial reporting could adversely affect our financial results, the market price of our common stock or our operations.

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

We did not purchase any ePlus inc. common stock during the three and nine months ended December 31, 2007.

The timing and expiration date of the stock repurchase authorizations are included in Note 9, “Stock Repurchase” to our Condensed Consolidated Financial Statements.

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits

| Exhibit No. | Exhibit Description |
|---|---|
| 31.1 | Certification of the Chief Executive Officer of ePlus inc. pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a). |
| 31.2 | Certification of the Chief Financial Officer of ePlus inc. pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a). |
| 32.0 | Certification of the Chief Executive Officer and Chief Financial Officer of ePlus inc. pursuant to 18 U.S.C. § 1350. |

42

Table of Contents

SIGNATURES

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

| | |
|---|---|
| | ePlus inc. |
| Date: June 30, 2008 | /s/ PHILLIP G. NORTON<br>By: Phillip G. Norton, Chairman of the Board,<br>President and Chief Executive Officer |
| Date: June 30, 2008 | /s/ STEVEN J. MENCARINI<br>By: Steven J. Mencarini<br>Chief Financial Officer |